# DAR MCRY

RONALD REAGAN, MCA, AND THE MOB

# DAN E. MOLDEA

AUTHOR OF

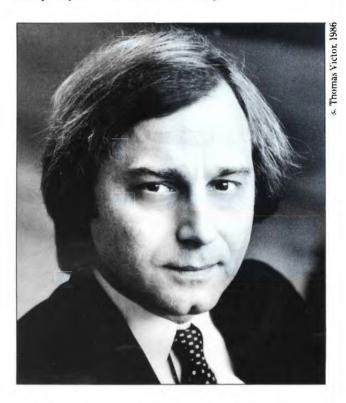
THE HOFFA WARS

Dark Victory is an explosive investigation into the Hidden Hollywood-a Hollywood of intimidation and corruption—and the men whose power and influence stretch beyond the entertainment world all the way to the White House. The focus of this story is the long, intimate, and profitable relationship between Ronald Reagan and a powerful entertainment conglomerate named MCA. In 1942 Lew Wasserman, president of MCA, obtained for Ronald Reagan MCA's first million-dollar studio contract. As president of the Screen Actors Guild, Ronald Reagan negotiated in 1952 an exclusive arrangement that enabled MCA to represent talent and produce shows, in effect becoming the prospective employer of its own clients. This arrangement became the focus of a 1962 Justice Department investigation in which Ronald Reagan was a key witness (his testimony during the grand jury inquiry is published here for the first time). In the late 1960s MCA swung huge real estate deals on Reagan's behalf, making him a millionaire, and it has played a vital and continuing role in Reagan's political career.

In Dark Victory veteran reporter Dan E. Moldea uncovers the story of MCA's dramatic transformation from a small midwestern talent agency started in the early days of the big bands to a conglomerate with annual revenues of \$2 billion, and how its ruthless tactics have constantly invited FBI and Justice Department investigations. Dark Victory is also a history of the Mafia's infiltration of Hollywood. From the shakedown of movie studios in the 1930s to the invisible brokers who negotiate closed-door deals between the trade unions and corporate executives, Hollywood has always tolerated the presence of organized crime.

(Continued on back flap)

Dark Victory is also the story of Reagan's journey to the White House; it explores his associations, and his debts, to men who have been tied to organized crime. Dark Victory is the untold story of Ronald Reagan, and the true story of power in America today.



DAN E. MOLDEA has specialized in organized crime investigations since 1974. He has written for numerous publications and is the author of *The Hoffa Wars* and *The Hunting of Cain*. He lives in Washington, D.C.

Jacket design by Neil Stuart



VIKING PENGUIN INC. 40 West 23rd Street New York, N.Y. 10010 Printed in U.S.A. "President Ronald Reagan's professional life—his acting career, his personal financial fortune, and his rise in politics—has been interwoven with and propelled by a powerful, Hollywood-based entertainment conglomerate named MCA.

"Everyone involved has greatly profited from this relationship. MCA helped to make its client, actor Ronald Reagan, a multi-millionaire; and the favors that were returned by Reagan, the former president of the Screen Actors Guild and the former governor of California, have helped to transform MCA into a billion-dollar empire and the most powerful force in the entertainment world today.

"Reagan and his closest friends have portrayed and defended the president's business transactions with MCA, which date back to 1940, as being totally above suspicion. But there remain numerous unanswered questions and allegations about the relationship between Reagan and MCA."

—from Dark Victory



# DARK VICTORY



#### ALSO BY DAN E. MOLDEA

The Hoffa Wars:
Teamsters, Rebels, Politicians and the Mob
The Hunting of Cain:
A True Story of Money, Greed and Fratricide

# DARK VICTORY

### Ronald Reagan, MCA, and the Mob

## DAN E. MOLDEA



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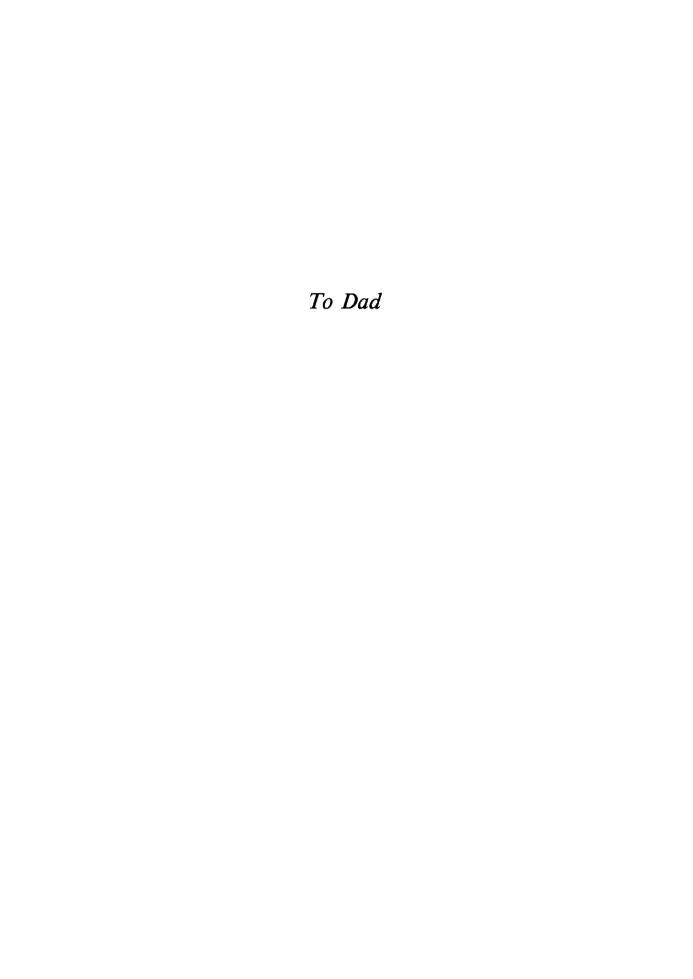
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Organized crime will put a man in the White House someday—and he won't know it until they hand him the bill.

RALPH SALERNO, New York Police Department 1967

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## **CONTENTS**

Acknowledgments	1X
Frequently Mentioned Names	xiii
Prologue	1
I. The Rise	9
II. The Fall	95
III. The Resurrection	217
Epilogue	305
Notes	351
Bibliography	363
Index	371

Photographs appear following page 222.

## FREQUENTLY MENTIONED NAMES

#### MCA's Sphere of Influence

Larry Barnett: MCA vice-president in charge of band-booking.

Laurence Beilenson: attorney for the Screen Actors and Screen Writers guilds who became legal counsel for MCA.

Arthur Park: Ronald Reagan's personal agent for General Electric Theater.

Ronald Reagan: president of the Screen Actors Guild; governor of California; president of the United States.

Taft Schreiber: MCA's first agent, head of Revue Productions, and MCA vice-president.

Sidney Sheinberg: Lew Wasserman's successor as president of MCA. Jules Stein: founder of MCA, president of MCA, chairman of the board of MCA.

Allen Susman: general counsel for MCA.

Lew Wasserman: Stein's successor as both president and chairman of the board.

David "Sonny" Werblin: MCA vice-president and president of MCA-TV.

Union Officials

Roy Brewer: Hollywood representative of IATSE, the International Alliance of Theatrical Stage Employees Union.

George Browne: president of IATSE.

John Dales: executive secretary of the Screen Actors Guild.

James R. Hoffa: president of the Teamsters Union.

Robert Montgomery: president of the Screen Actors Guild.

James Caesar Petrillo: president of the American Federation of Musicians.

Jackie Presser: president of the Teamsters Union.

Herb Sorrell: president of the Conference of Studio Organizations.

Richard Walsh: Browne's successor as president of IATSE.

Organized Crime Figures and Associates

Anthony Accardo: head of the Chicago Mafia.

Gus Alex: member of the Chicago Mafia.

Willie Bioff: front man for the Chicago Mafia in Hollywood operations.

Morris (Moe) Dalitz: leader of Cleveland's Mayfield Road Gang; owner of Las Vegas casinos and the La Costa Country Club.

Allen M. Dorfman: fiduciary manager of the Teamsters pension fund.

James Fratianno: Los Angeles Mafia figure.

Sam Giancana: head of the Chicago Mafia.

Charles Gioe: the Chicago Mafia's operations man in Iowa.

Murray Humphreys: Chicago underworld figure.

Sidney R. Korshak: Chicago attorney, operating primarily out of Beverly Hills.

Johnny Roselli: overseer of the Chicago Mafia's operations in Holly-

Bugsy Siegel: overseer of the National Crime Syndicate's operations in Las Vegas.

Korshak's Sphere of Influence

"Colonel" Jake Arvey: Illinois National Democratic Party committeeman.

Greg Bautzer: Beverly Hills attorney.

Delbert Coleman: owner of the Parvin-Dohrmann Corporation. Beldon Katleman: owner of the El Rancho Vegas hotel/casino.

Marshall Korshak: Democratic political figure in Chicago; brother of Sidney Korshak.

Eugene Wyman: Beverly Hills attorney.

Reagan's Sphere of Influence

Walter Annenberg: publishing mogul.

William Casey: CIA director under Reagan.

Ray Donovan: Secretary of Labor under Reagan.

Paul Laxalt: governor of Nevada; senator from Nevada; Reagan's campaign manager.

Nancy Reagan: Ronald Reagan's second wife; member of the board of the Screen Actors Guild.

Henry Salvatori: member of Reagan's Kitchen Cabinet.

William French Smith: Reagan's personal attorney; U.S. attorney general.

Holmes Tuttle: member of Reagan's Kitchen Cabinet.

#### Government Officials

Thurman Arnold: head of the Justice Department's Antitrust Division under Franklin D. Roosevelt.

Edmund (Pat) Brown: governor of California, 1959-1967.

Jerry Brown: Reagan's successor as governor of California, 1975–1981.

John Fricano: Antitrust Division attorney under Kennedy.

Barry Goldwater: senator from Arizona.

J. Edgar Hoover: FBI director.

Estes Kefauver: senator from Tennessee; chairman of the Kefauver Committee.

John F. Kennedy: president of the United States, 1961-1963.

Robert F. Kennedy: chief counsel of the McClellan Committee; U.S. attorney general under John Kennedy.

Lee Loevinger: head of the Antitrust Division under Kennedy.

Paul J. McCormick: judge in Finley v. MCA.

William C. Mathes: judge in U.S. v. MCA.

George Maury: Antitrust Division attorney under FDR.

John Mitchell: U.S. attorney general under Nixon.

Richard M. Nixon: president of the United States, 1969-1974.

Leonard Posner: Antitrust Division attorney under Eisenhower and Kennedy.

Charles Whittinghill: Antitrust Division attorney under Kennedy.

#### Corporate and Studio Executives

Barney Balaban: president of Balaban and Katz; president of Paramount Studios.

Charles G. Bluhdorn: chairman of the board of Gulf & Western, which owns Paramount.

Pat Casey: labor negotiator for the Motion Picture Producers Association.

Harry Cohn: founder and president of Columbia Pictures.

Bryan Foy: executive producer of Warner Brothers and Eagle-Lion Studios.

Howard Hughes: billionaire president of Caddo Corporation and RKO.

Kirk Kerkorian: majority stockholder in MGM/United Artists.

Carl Laemmle: founder of Universal Studios.

Louis B. Mayer: vice-president in charge of production of MGM.

Joseph Schenck: president of Twentieth Century-Fox.

Spyros Skouras: Schenck's successor as president of Twentieth Century-Fox.

Leo Spitz: legal counsel to the Producers Association; president of Universal-International Studios.

Joseph Vogel: president of MGM.

Jack L. Warner: president of Warner Brothers.

Darryl F. Zanuck: Schenck's partner in Twentieth Century-Fox; Skouras's successor as president.

#### Other Characters

Larry Finley: San Diego ballroom owner. Jeff Kibre: leader of the IATSE progressives. Robert Maheu: Howard Hughes's top aide.

Grant Sawyer: governor of Nevada.

Frank Sinatra: entertainer.

Kearney Walton, Jr.: bandleader.

Jane Wyman: actress; Reagan's first wife.

Paul Ziffren: California Democratic Party Committeeman; law partner of William French Smith; co-chairman of the 1984 U.S. Olympic Committee.

# DARK VICTORY



President Ronald Reagan's professional life—his acting career, his personal financial fortune, and his rise in politics—has been interwoven with and propelled by a powerful, Hollywood-based entertainment conglomerate named MCA. For nearly fifty years, Reagan has benefited both personally and financially from his association with this sixty-two-year-old company—formerly known as the Music Corporation of America—as well as from his close association with the firm's top executives: Jules Stein, Lew Wasserman, and Taft Schreiber.

Everyone involved has greatly profited from this relationship. MCA helped to make its client, actor Ronald Reagan, a multimillionaire; and the favors that were returned by Reagan, the former president of the Screen Actors Guild (SAG) and the former governor of California, have helped to transform MCA into a billion-dollar empire and the most powerful force in the entertainment world today.

Reagan and his closest friends have portrayed and defended the president's business transactions with MCA, which date back to 1940, as being totally above suspicion. But there remain numerous unanswered questions and allegations about the relationship between Reagan and MCA. These doubts raise delicate issues that involve possible personal and political payoffs—as well as links to major Mafia figures,

particularly Beverly Hills attorney Sidney Korshak, who has been described by federal investigators as the principal link between the legitimate business world and organized crime.

In 1962, the Antitrust Division of the U.S. Department of Justice tried to resolve some of these questions, but their secret investigation was settled out of court before the evidence could be presented. The results of the probe were never made public, and no one close to MCA was ever indicted. However, through the Freedom of Information Act, many of these documents have been recovered and are excerpted in this book.

These records show that Reagan, the president of SAG and an FBI informant against Hollywood communists, was the subject of a federal grand jury investigation whose focus was Reagan's possible role in a suspected conspiracy between MCA and the actors' union. According to Justice Department documents, government prosecutors had concluded that decisions made by SAG while under Reagan's leadership became "the central fact of MCA's whole rise to power."

Over the past two decades, Ronald Reagan has refused to answer any in-depth questions about how he amassed his personal wealth-currently estimated at more than \$4 million. In 1976, when he first ran for president, and again in 1980 and 1984, Reagan managed to avoid any intense scrutiny of his finances. His financial ties to MCA have been virtually ignored, relegated to the category of ancient history.

Nor has Reagan ever been asked about his personal, financial, professional, or political relationship with Sidney Korshak-who has repeatedly appeared to be involved with Reagan and several of his top advisers throughout their careers.

MCA first began to receive national attention in 1946, when a federal court in Los Angeles ruled against the company for antitrust violations. At the time, MCA was simply a talent agency, booking bands in nightclubs and actors in motion pictures. In rendering his decision, the presiding judge declared that MCA held a virtual monopoly over the entertainment business. This antitrust suit, one of many legal actions filed against MCA over the past fifty years, involved a San Diego ballroom operator who had accused MCA of demanding exorbitant prices from him to book bands for his dances—charging him much more than competing ballrooms were paying for their musical acts. The jury found that MCA's practices had restrained trade in the bandbooking business, and it awarded the ballroom owner a \$55,500 judgment.

In deciding against MCA, the judge called the talent agency "the Octopus . . . with tentacles reaching out to all phases and grasping everything in show business." The image of "the Octopus" remained and became MCA's nickname in both the Hollywood trade and the press.

Years ago, a motion picture executive commented, "A studio can't exist for any time without some contact with MCA. I would say it's impossible to operate without them. Jack Warner [the head of Warner Brothersl tried it. He couldn't hold out for long."

Today, MCA is still "the Octopus," even though it is out of the talent agency business and now the owner of the largest motion picture and television production companies in the United States, Universal Pictures and Universal-Television. Headquartered in the stark, imposing, black-steel and glass tower at Universal City on the edge of California's San Fernando Valley, the giant, two-billion-dollar conglomerate has offices in major cities all over the world and owns businesses in book and music publishing, a major record company, transportation systems. home video marketing, recreation services, a savings and loan company, real estate, data processing, mail-order purchasing, retail store merchandising, and cable television.

But, far and away, MCA's major business is show business. "They own it," comedian Jerry Lewis once guipped.

During the 1950s, MCA's then-television subsidiary, Revue Productions, became the world's most successful producer and distributor of television film series. Each week Revue supplied the television networks with some forty hours of programming, including such top-rated shows as Wagon Train, Alfred Hitchcock Presents. The Jack Benny Show, Ozzie and Harriet, Dragnet, This Is Your Life, and Leave It to Beaver.

After MCA bought Universal Studios and made plans to produce motion pictures as well as television programs, Revue became Universal-Television in 1962, creating such shows as Marcus Welby, M.D., Columbo, McMillan and Wife, Kojak, The Six-Million-Dollar Man, The Rockford Files, The Incredible Hulk, Magnum, P.I., and Miami Vice. Under MCA, Universal Pictures has won three Academy Awards for Best Picture for The Sting, The Deer Hunter, and Out of Africa. And the studio has also produced such financial blockbusters as Airport, American Graffiti, Jaws, E.T. the Extraterrestrial, On Golden Pond, and Back to the Future.

For years, MCA has been viewed by its clients, rivals, and the business press as the General Motors of Hollywood. Despite the company's vast power within the entertainment industry, most Americans have never heard of MCA. Since the company was founded in 1924, it has cultivated an air of mystery about itself. In an industry that thrives on publicity, MCA's executives have thrived on anonymity. The guiding credo at MCA has always been that publicity is for the clients, not the company.

It is a show business legend that one of the ways MCA's agents tried to remain anonymous was to dress extremely conservatively—in black or dark-gray suits, white shirts, and dark, narrow ties. The top executives set the example, which everyone followed. MCA's management team was credited with bringing a correct, Ivy League dignity to a profession that had previously been characterized by plaid-jacketed, cigar-smoking agents who did nothing more than "peddle flesh." MCA believed agents should look, dress, and act like other businessmen and bankers. With the MCA dress code came the reputation for ruthless efficiency. During the 1950s, competitors derisively called MCA's aggressive agents "the black-suited Mafia."

The brains behind MCA was Jules Stein, a Chicago ophthalmologist who discovered that he could make more money booking bands. When Stein and an associate, Billy Goodheart, founded the Music Corporation of America in 1924, they began empire-building—with the help of James Petrillo, the head of the American Federation of Musicians, with whom MCA maintained a sweetheart labor-management relationship. According to Justice Department documents, Petrillo was paid off in return for favors to MCA. Taft Schreiber and Sonny Werblin were among the first two top MCA assistants, followed by Lew Wasserman, who was groomed as Stein's heir and was named president of the company in 1946; Stein then became MCA's chairman of the board.

The rise of MCA and its move to Hollywood paralleled the rise of the Chicago Mafia and its infiltration of the motion picture industry. While MCA was representing some of the top motion picture stars, Chicago mobsters took control of the International Alliance of Theatrical Stage Employees (IATSE), the major Hollywood labor union—through Willie Bioff, a small-time hood, who was supervised by Chicago mob lieutenant Johnny Roselli. The studios made payoffs to the underworld for labor peace—and to keep their workers' wages and benefits to a minimum. But when the studios' payoff man was caught for evading federal income taxes, he plea-bargained with the government, implicating Bioff, but not the Mafia, in the extortion scheme. Bioff was indicted and convicted—and then turned state's evidence against his cohorts, who were also convicted and sent to prison.

The Chicago Mafia's role in Hollywood did not end with the convictions; it simply changed. Chicago's new liaison in the motion picture industry became attorney Sidney Korshak, who had represented Bioff. Charles Gioe, a top Chicago Mafia figure, had told Bioff that Korshak was "our man . . . any message he may deliver to you is a message from 115."

A close friend of Stein's and Wasserman's, Korshak quickly became one of the most powerful influences in the entertainment industry and in California politics. One of his key political connections was another former Chicagoan, Paul Ziffren, who at one point was California's delegate to the National Democratic Committee. (He would not seek reelection after his ties to major organized crime figures were exposed by a national magazine.) Korshak also associated himself with top Republican leaders to hedge his bets—and always have friends in power.

In the late 1940s Hollywood shifted its attention away from the Mafia's infiltration of the film industry to its infiltration by communists. Ronald Reagan, a young actor who was represented by Wasserman and MCA, was a star player during the investigation and hearings by the U.S. House Un-American Activities Committee (HUAC), serving as both an informant for the FBI and a friendly witness for the committee.

After his performance in the war against communism—which included support for IATSE, the union formerly controlled by Bioff that was still run by his same executive board—Reagan was rewarded by being elected as president of the Screen Actors Guild, serving for five consecutive one-year terms.

In 1952, during his fifth term, Reagan engineered a "blanket waiver," exempting MCA from SAG rules prohibiting a talent agency from also engaging in film production. Reagan's second wife, actress Nancy Davis, was also a member of the SAG board of directors at the time the MCA-SAG deal was made. MCA was the only such firm to have been granted such a favored status, giving it the ground floor in television production. It placed the company in a position where it could offer jobs to the actors it represented. Other talent agencies complained that this situation gave MCA an unfair advantage.

Soon after Reagan's tenure as SAG president ended, he found himself in serious financial trouble. With his film career on the skids, Reagan was saved by MCA with jobs in Las Vegas and on television. According to Justice Department documents, several government sources believed that the preferential treatment Reagan received from MCA was a payoff for services rendered while Reagan was the president of SAG.

In 1959, the SAG membership reelected Reagan as president of SAG for a sixth term to lead an impending strike against the studios—despite the fact that Reagan had been producing episodes for *General Electric Theater*. According to SAG's by-laws, producers, even if they were primarily actors, are disqualified from serving on the SAG executive board. Previous board members faced with similar situations had resigned; Reagan refused to do so.

Although MCA and a handful of smaller studios made an early, separate peace with SAG and continued production, the major motion picture companies held out, causing the strike to last six weeks. In the end, according to the president of IATSE, Reagan's final settlement with the big studios came with the help of Sidney Korshak—with whom Reagan had allegedly been associated. The 1960 contract was so unsatisfactory to the SAG membership it has since been called "The Great Giveaway." Reagan resigned in midterm soon after the strike.

After several abortive attempts to investigate MCA for antitrust violations, the federal government—upon the election of John Kennedy as president and the appointment of Robert Kennedy as attorney general—began a concentrated probe into MCA's business affairs. The government had evidence that MCA had engaged in numerous civil and criminal violations of law and empaneled a federal grand jury to hear the specifics of its charges, which included restraint of trade, conspiracy with SAG to monopolize talent and film program productions, extortion, discrimination, blacklisting, and the use of predatory business practices. Among those called to testify was Ronald Reagan, who displayed a remarkable loss of memory while on the witness stand. Soon after, the federal income tax records of Reagan and his wife were subpoenaed for the years following the MCA-SAG blanket waiver.

In the midst of the grand jury's investigation, MCA purchased Universal Pictures and its parent company, Decca Records. The government immediately went to court, seeking to block MCA's takeover of the corporation. However, after lengthy negotiations between attorneys for the Justice Department's Antitrust Division and MCA, a consent decree was issued and the case was considered closed. The litigation forced MCA to choose whether it wished to be either a talent agency or a production company. Considering that its production efforts yielded nearly ten times more money than the talent agency, the decision was an easy one: MCA dissolved its talent agency.

Reagan has admitted that the government's breakup of MCA affected his political beliefs, inclining him toward a more conservative. antigovernment stance. Beginning with the Barry Goldwater presidential campaign in 1964 and then with his own bid for governor of California in 1966, Reagan's reactionary tone enhanced his image with other conservatives but nearly cost him his job with General Electric Theater. Among the guiding forces in the shaping of Reagan's political philosophy were MCA's Jules Stein and Taft Schreiber. According to law-enforcement authorities, several of Reagan's campaign financiers were close friends and associates of Sidney Korshak.

Stein and Schreiber—as well as Reagan's personal attorney. Los Angeles labor lawyer William French Smith-made several questionable financial transactions on Reagan's behalf, making him a multimillionaire overnight. Once governor, Reagan made executive decisions that were greatly beneficial to MCA and other corporations with motion picture studio interests.

The same year that Reagan was elected governor of California, Paul Laxalt was elected governor of Nevada. Both Laxalt and Reagan had been heavily involved in the Goldwater campaign. The two men, as governors of neighboring states, became close friends while the latter tried to "clean up" Nevada's image. However, during Laxalt's tenure, a scandal broke out in Las Vegas over a corporation that owned several casinos. Korshak was the major target of the federal investigation that followed. Although Laxalt has been linked with Korshak's associates and clients, he has denied any association with Korshak.

Although Laxalt chose not to seek a second term as governor, Reagan did and was reelected. Laxalt returned to practicing law and then opened a gambling casino in Nevada—which failed. Laxalt then ran for the U.S. Senate and won. While serving as a senator, Laxalt ran Reagan's campaigns for the presidency in 1976 and again in 1980. Laxalt then became general chairman of the Republican National Committee.

Meantime, Stein removed himself as MCA's chairman of the board and was replaced by Wasserman-who was succeeded by the head of Universal-Television, Sidney Sheinberg. MCA grew enormously under Wasserman and Sheinberg. Its only major failure was an attempt to mass-produce a home entertainment system—consisting of video discs, containing motion pictures and other programs, which could be played on machines hooked up to standard television sets. However, MCA's idea was eclipsed by a similar product marketed by its rival RCA and another system developed by Sony, utilizing videocassettes that could

do everything the MCA and RCA systems did as well as record television programs. Nevertheless, MCA continued to shatter box-office records with its blockbuster motion pictures while its television productions soared in the network ratings.

Wasserman also became increasingly involved in politics. He had supported President Jimmy Carter but then had a falling out with him after Reagan announced his 1980 candidacy. Korshak, a Democrat who had supported Reagan during his 1970 reelection bid for governor of California, had been the target of a four-part series in June of 1976 in The New York Times, which described him as "a behind-the-scenes 'fixer' who has been instrumental in helping criminal elements gain power in union affairs and infiltrate the leisure and entertainment industries." Although Korshak was not on record as supporting either Carter or Reagan in 1980, his close associate, Democrat Paul Ziffren. became a law partner of William French Smith, who later became Reagan's attorney general.

During the presidential campaign, Reagan met privately with known associates of organized crime and appointed others to his personal campaign staff. Several of these people were later given high positions in the Reagan administration after his election. President Reagan talked tough about the organized crime problem in the United States, while surrounding himself with many who were closely linked to those who have created it.

To illustrate this web of power and manipulation, this story has been organized chronologically, minimizing whatever reader confusion might result from the proliferation of names, events, and dates contained in the narrative. The common thread throughout this story is the corporation MCA. In tracing its history I have concentrated on the parallel and sometimes intertwining careers of Ronald Reagan, Lew Wasserman, and Sidney Korshak—and how these three men have affected political, business, and labor history in America.



# THE RISE

## CHAPTER ONE

NEAR THE END of World War I, the United States government built a naval base on the Mississippi River near the segregated Storyville neighborhood of New Orleans. The area, which covered thirty-eight blocks in the French Quarter, was a jazz musicians' paradise where townspeople jammed together on street corners every night, playing everything from boat whistles and washboards to open-bell trumpets and slide trombones into the early-morning hours. Known as "The District," Storyville stretched from Perdido and Gravier streets to Franklin and Locust streets and was the home of Ferdinand "Jelly Roll" Morton, the self-proclaimed "inventor" of jazz, as well as the home of a string of independent saloons, gambling joints, and brothels.

With the passage of the Volstead Act in 1919, the Prohibition Era began. The public drunkenness, crooked gambling, and open prostitution rampant in Storyville had earned it a reputation as Sin City, a reputation that had already reached Washington, D.C. The federal government needed little impetus to expropriate the land and permanently close down the area. Within days, thousands of people, packing everything they owned, left the city, looking for places to resettle.

"Closing the area meant the end of jobs for musicians, singers, and hundreds of other workers," said one observer. "But it was even more. It was the coda for a fantastic era, and the termination of New Orleans as the world's hotbed of jazz."

Most of the musicians—like trumpet players Joe "King" Oliver and Louis Armstrong—traveled north. Chicago became their new home and the new capital of jazz. King Oliver's Creole Jazz Band and Armstrong's Sunset Band worked at places like the Dreamland Café and the Royal Gardens on Chicago's South Side, as well as the Grand Theatre, the Colonial Theatre, and the North American Restaurant, all in and around the Loop, once again playing into the early-morning hours.

The Original Dixieland Jazz Band and the New Orleans Rhythm Kings were not among the first jazz bands, not even among the first all-white jazz bands, but their music—patterned after the rhythmic passion of Black rag and jazz—brought jazz to a larger, more cosmopolitan audience. These white bands quickly became known to audiences in places as distant as New York and London.

During the early 1920s, young South Side Chicago musicians—like Eddie Condon, Muggsy Spanier, and George Wettling—and West Side youths like Benny Goodman were influenced by the sound these groups produced. But Condon's and Goodman's music took on an identity of its own. It became known as "Chicago Style" or "White Chicago" because of its emphasis on Black off-the-beat rhythms and sharply defined notes, but with a new swing and aggressiveness. This variation of basic jazz, sometimes hard and harsh, seemed to epitomize the vitality of the Roaring Twenties and of Chicago, which had become a wide-open town.

The notorious Mafia leader Al Capone and his rival gangs had built their empires on illegal, bootlegged liquor, which brought them millions of dollars in unreported, untaxed income. When the Depression came, they were the only people with big money, so bankers, businessmen, and politicians often came to them for help. They usually received it—but always for a price. Massive violations of state and federal banking laws, the mob's infiltration of legitimate businesses, and political corruption became facts of life. Those who defied the system or double-crossed the people who paid them off were either personally destroyed or brutally murdered. Despite its more glorified Hollywood image, there was nothing glamorous about the real legacy of the Chicago Mafia.

Between machine-gun shootouts in the streets, the racketeers spent a lot of their dough in nightclubs and speakeasies, some of which they had built themselves. Juiced-up mobsters foot-tapped in time with jazz and Dixieland music played by one band or another in any number of clubs. Mafia members, who fantasized about playing a cool sax, befriended those musicians who could. Musicians—who dreamed about being rich and powerful, with plenty of dames around—allowed them to do so, usually making a few extra bucks, earning a little protection, and maybe even enjoying the favors of a mobster's moll.

Initially, music critics viewed jazz enthusiasts as "musical illiterates." But as a more commercial, toned-down form of jazz evolved, this relatively new innovation in music became more widely accepted. As a result, the band-booking business blossomed and the record industry boomed into a multi-million-dollar-a-year bonanza. In 1921 alone, twenty years after the pioneering Victor Talking Machine Company and the Columbia Graphophone Company were established, over \$106 million in records were sold. Two years earlier, in 1919, New York's Radio Corporation of America (RCA) had been created.\*

On October 7, 1922, WJZ, a Westinghouse radio station in Newark, New Jersey, hooked up with General Electric's WGY in Schenectady, New York, and broadcast the opening game of the World Series. The following year, AT&T's station in New York performed a similar feat, cabling radio signals to WMAF in South Dartmouth, Massachusetts. By 1924, twenty-five other stations were added to AT&T. Two years later, the National Broadcasting Company, NBC—which was owned and operated by RCA—took over AT&T's operations and became the first licensed radio network, broadcasting as far west as Kansas City to twenty-one cities.

The demand for musical entertainment on the radio was tremendous. In spite of the fear among some people that jazz and its variations would corrupt the public's taste in music, dance bands were in vogue. The radio made Eddie Condon, Benny Goodman, Duke Ellington, and Guy Lombardo household words. Increasingly, both well-known and lesser-known but up-and-coming bands needed managers to represent them professionally. Band members were musicians but not always businessmen, and most of them needed an agent to protect their financial interests.

The biggest talent bureau at the time was the New York-based William Morris Agency. It was founded in 1898 by Austrian immigrant Wilhelm Moses, who had changed his name to William Morris when

<sup>\*</sup>President Woodrow Wilson encouraged the General Electric Company to form RCA because he feared that the technology for wireless radio transmissions would be controlled by foreign nations in the wake of World War I. GE was RCA's largest stockholder. Other investors included AT&T, Westinghouse, and United Fruit.

he came to the United States. Morris had retired in the early 1920s, turning the agency over to his son, William Morris, Jr., a scholarly man who had no taste for the business. Young Morris made Abe Lastfogel, a charming and popular man who had worked for the William Morris Agency since he was fourteen, the company's president. At that time, the agency numbered among its clients George Jessel, Jimmy Durante, Al Jolson, and Eddie Cantor.

Another prominent talent agency was the Associated Booking Corporation, run by Joseph G. Glaser. Glaser was Louis Armstrong's manager, as well as the exclusive agent for many of the top Black performers. A big Chicago White Sox fan who spent much of his time doing business at Comiskey Park, he had a reputation as a cold, crusty, hard-driving businessman. To ensure an edge in his business, he became a close associate of many of the top underworld figures in Chicago and New York, whom he had met through his band-booking agency.

In 1924, a small, soft-spoken, professorial-looking man named Julius Caesar Stein started the Music Corporation of America—MCA—in Chicago with a stake of only a thousand dollars—which included twenty-five dollars for the incorporation papers.

Born in South Bend, Indiana, on April 26, 1896, "Jules" Stein was the son of the proprietor of a small general store. His mother—who had bought him a mandolin as his first musical instrument—was an invalid whose care often drained the family's meager bank account. As a result, Stein, even as a child, was forced to make his own money. By the time he was twelve, Stein had saved enough money to see himself through prep school. He never returned home. Initially intrigued by the possibility of becoming a professional flyer, the black-haired, brown-eyed Stein, who had a sharply angular face with a pronounced chin and jaw, decided to move in a completely different direction and studied to be an ophthalmologist. (The year he founded MCA he published a respected, erudite treatise on "The Use of Telescopic Spectacles and Distil Lensen.")

But Stein had been smitten by show business. He began his entertainment career in Chicago shortly after leaving home. At the age of 14, he was leading an orchestra; his favorite song was "Alexander's Ragtime Band." As he worked his way through the University of West Virginia, graduating at eighteen, and medical school at the University of Chicago, he played in and booked dance bands, describing himself as a "schmaltzy" violinist and saxophone player.\* During World War I,

<sup>\*</sup>One of Stein's stints was in the backup band for Mae West's vaudeville show.

he served in the Army Reserve as a medical officer. After the war, he headed for Vienna to pursue postgraduate work. Stein had also found time to take a three-year correspondence course in business.

Returning to Chicago, he served a residency at Cook County Hospital and went into private practice, working as the assistant to Dr. Harry Gradle, one of the Midwest's most eminent eye surgeons. Soon after, Stein met an old college chum, William R. "Billy" Goodheart. A quick-tempered but accomplished pianist, Goodheart was viewed as the kind of guy who would slap around the newspaper boy for throwing the morning edition in the bushes. "Goodheart was known as a 'character,'" wrote one reporter. "He was said to sit in a raised chair so he could look down on his callers. When someone asked for two minutes of his time, he got just that—by a stopwatch. He carried pills for every ailment. He was a driver who demanded results and accepted no excuses."

Goodheart shared Stein's interest in the music business. The two men became partners in Kenneworth Music. They soon discovered that they were shrewd businessmen and had a knack for organizing and promoting bands. Their principal business came from the mob-controlled nightclubs and speakeasies on Chicago's South Side, Capone's territory.

"I had a young assistant," Stein remembered, "and he'd ring up about bookings while I had a patient in the chair. I'd be saying, 'Can you read this, can you read this?' and all the while I'd be speaking [on] the phone. We had Hushaphones in those days, a box around the speaker so nobody could hear what you were saying, and I couldn't have done business without that."

Stein recognized that he could make more money as a booking agent than anything else he could do. So Stein gave up his career with Dr. Gradle to found MCA with Goodheart. Overnight, Dr. Stein became simply Jules Stein. Working from a tiny, two-room office in downtown Chicago, Stein and Goodheart quickly began finding jobs for dance bands and other musical performers throughout the Midwest, as well as advising clients on their careers. In return, they usually took a ten-percent commission.

Stein was responsible for inventing the concept of "rotating bands" for the one-night stands and the week-long engagements. He convinced club owners that their businesses would grow if they frequently brought in new entertainers. Before that time, bands would play in one location for months, even years.

Stein and Goodheart also insisted that MCA be the exclusive agent of those bands and bandleaders it represented and later demanded that dance halls with which they worked hire MCA bands exclusively—a practice which had been unheard of previously. Once signed, MCA's clients and customers would then be offered MCA deals on automobiles and insurance policies. To secure bookings, MCA, according to several sources, occasionally resorted to intimidation. Some clubs that refused exclusive arrangements with MCA became the targets of "stink bomb" attacks, which would be launched during the acts of other agencies' bands.<sup>4</sup>

The dance band business meant an itinerant existence. Booking agents handled the details of getting acts from place to place and finding them places to stay. Many bands had to play nearly every night, traveling from city to city, state to state in order to make enough money to survive. Bands might consist of as few as five and as many as twenty musicians. MCA made sure they were taken care of. For many trips band managers, arrangers, and soloists might also have to be included. MCA had to provide for them as well. "Name" bands traveled in their own buses; "semi-name" bands had to lease or rent. MCA was also responsible for arranging radio broadcasts, as well as supplying publicity—posters, press releases, and newspaper ads. For its ten-percent commission, MCA took care of everything as part of its package deal, leaving the clubs with little to do.

MCA remained in constant touch with dance hall operators in the various states while its bands were on the road, trying to extend their tours or fill in open dates. Whenever possible, MCA tried to gain exclusives with the clubs and hotels, providing them not only with bands but with liquor, glasses, linen, and even confetti.

Stein and MCA handled themselves so professionally that biggername bands began to take notice and sought to be represented by them. Among others, Stein had penned a contract with the Coon-Sanders Kansas City Nighthawks, which played a softer variation of jazz. But Stein still did not have a big-name band and a way to crack the lucrative New York big-band market.

In 1928, MCA pulled its first big national coup by signing Guy Lombardo and his orchestra to an exclusive contract. Goodheart—whose goal was to make a million dollars by the time he was forty—first approached Lombardo while he was playing at the Music Box, a nightclub in Cleveland, Ohio. Lombardo rejected MCA's offer at first, insisting that he neither needed nor wanted an agent. But after Stein pulled strings to get him a long-term contract at the Roosevelt Hotel in New York, Lombardo signed, bringing in tow his close friend, pianist Eddy Duchin. Other major bandleaders followed in Lombardo's wake.

Goodheart left Chicago and opened the agency's New York office in the Paramount Theatre Building at 43rd and Broadway. MCA began to lock up bookings at New York's Waldorf-Astoria and many of the big, luxurious hotels and nightclubs in Chicago, New York, Miami, and Los Angeles.

By the mid-1930s—the Big-Band Era—MCA represented more than half of the major bands in the country, including those of Harry James, Tommy Dorsey, Kay Kyser, Xavier Cugat, Artie Shaw, and Gene Krupa. The agency booked them for one-night stands, as well as long-term engagements at dance halls, nightclubs, ice shows, county fairs, and big-city hotels. Stein, who had become a man-about-Chicago, was driving a Rolls-Royce and had purchased a beautiful French-style estate overlooking Lake Michigan.

With the growing popularity of musical programs on the radio—particularly on WGN in Chicago—Stein gained the support of his childhood friend, James Caesar Petrillo, the president of the Chicago local of the American Federation of Musicians (AFM).

Petrillo was the classical tough-guy labor boss. Born in 1892, the son of Italian immigrants, and a cornet-playing product of the Chicago slums, Petrillo had started as a union official for the Chicago local of the American Musicians Union in 1915. After losing his bid for president of his local in 1918, Petrillo abandoned the AMU and went to work for the AFM. In 1928, he became president of the AFM's Chicago local.

A small man, five feet six inches tall, with a fourth-grade education, a gruff style, rimless glasses, and monogrammed shirts, he spoke salty, ungrammatical English in a grating voice and rode around in a bullet-proof limousine. He was an extreme egotist and a shrewd and treacherous political infighter who ruled his union like a dictator. He loathed record companies, calling them "musical monsters which were killing employment" for live musicians, and eventually succeeded in making the companies pay artists for each record sold. He also forced the radio networks to pay their musicians at union scale regardless of whether the musicians were needed or not.

"If I was a good trumpet player," Petrillo said, "I wouldn't be here. I got desperate. I had to look for a job. I went into the union business."

When he became national president of the AFM, union boss Petrillo became the most powerful figure in the music industry. He performed many favors for Stein. (Stein was given AFM's membership card number one and attended nearly all of its union meetings.) Petrillo used his clout to prevent other big-band talent agencies, in competition with

Stein, from obtaining licenses to operate, thereby helping to give Stein and MCA a virtual monopoly over the major bands in the music business. Whenever a dispute arose between a band and MCA, the executive board of Petrillo's union always sided with MCA. One source said he could not recall a single case before the AFM board that was won by a union member against MCA. "The fix was always in," he said. "Big-band leaders were pretty consistently voted down by AFM whenever they had a dispute with MCA."

Petrillo also granted MCA an exclusive "blanket waiver," permitting Stein's firm to operate as both booking agent and radio production company—despite the fact that such an agreement was considered a conflict of interest and violated the AFM's by-laws. For instance, MCA, for as much as a thirty-percent profit, would package an entire radio program, complete with bands, singers, writers, directors, and producers, and sell it to the networks—even though all of the participants were represented by MCA. If a performer had a grievance, it would be difficult for him to complain to his agent, also his employer, who maintained a sweetheart relationship with his union.

With its association with Petrillo and AFM, MCA—along with its radio sponsor, Lucky Strike cigarettes—started producing network radio programs. MCA went to radio networks and told them, "We'll give you bands, but only if you give us remote radio lines." MCA agents then approached bandleaders, asking, "How would you like to be guaranteed forty weeks of employment during the year and to appear on radio every week on NBC's Lucky Strike Hit Parade?" What band could refuse such an offer? Finally, MCA would go to a prominent hotel owner and ask, "How would you like to have a big-name band, and have the band originate music from your hotel—with the hotel mentioned on a national radio hook-up every week?" The result was national exposure for MCA bands.

MCA followed the Lucky Strike Hit Parade with The Magic Carpet and later the Camel Caravan. All of these programs featured a rotation of MCA bands.

Because MCA had started to replace advertising agencies as the packagers of big-band music programs—while it continued its dual role as agent and producer as well—the growing corporation needed a great deal of cooperation and protection. Justice Department documents have charged that union officials, club owners, and bandleaders who cooperated with Stein often received "payola," in the form of cash, cars, and sometimes MCA stock options. "[I]t was well known that Petrillo took 'ice.'"

The government also alleged that union leader Petrillo eventually became a millionaire—even though his yearly union salary reportedly never exceeded \$26,000—as a direct result of his sweetheart relationship with MCA. Although the Justice Department uncovered evidence that Petrillo had received payoffs from MCA and other sources, he was never indicted.

## CHAPTER TWO

THE MAFIA in Chicago was formed during World War I when "Big Jim" Colosimo, an Old World Sicilian racketeer, put together a loose-knit, mostly disorganized network of other Italian/Sicilian criminals to protect his brothels and other illegitimate businesses. Among those surrounding Colosimo was Johnny Torrio, a street-smart hood, who brought Al Capone into the organization in 1919. Capone had come from New York and was known as a ruthless assassin. He was also a cousin of Charles "Lucky" Luciano, who had been operating with Meyer Lansky and Benjamin "Bugsy" Siegel.

Torrio came to believe that Colosimo had little foresight and did not possess the imagination and strength to make his brand of disorganized crime organized. Consequently, Torrio contracted for Capone to murder Colosimo in 1920. Torrio succeeded him as the head of the Chicago Mafia, using Capone to systematically wipe out rival Irish and Sicilian gangs. By 1923, Capone had been named as Public Enemy Number One.

During Prohibition, Torrio changed the face of the underworld, particularly in Chicago, where he "made" or admitted criminals from other ethnic backgrounds into the traditional Italian/Sicilian crime group. Illegal money obtained through bootlegging, gambling, loan-

sharking, and prostitution was channeled into legitimate businesses. But Capone quickly became too ambitious and tried to have Torrio executed. Even though Torrio survived, he decided to step aside for his younger protégé.

During the Capone reign of terror, the Chicago Mafia became the most feared crime organization in the United States. Disorganized crime became organized—with all the implicit degrees of control and discipline. By 1931, the Mafia had become "Americanized." The last of the Old World "Mustache Petes"—first-generation leaders of the American-Sicilian underworld—were slaughtered in September on the orders of Luciano, who retained the services of his associates Lansky and Siegel.

Four days after this bloody purge—which signaled the end of the "Castellammarese War"—a national crime syndicate was established. The United States was divided into twenty-four subdivisions, each controlled by the most powerful Mafia families in these various geographic areas. Nine of the leaders of these twenty-four crime groups were selected to sit on a national crime commission that would settle jurisdictional disputes.

This syndicate was created to frustrate the infighting among Mafia families that was interfering with the mob's primary goals to make money and to stay out of jail. With the increased stability and decreased exposure, mob financiers like Lansky were free to find legal and illegal money-making ventures, raise the necessary capital from participating crime families, launder funds through "friendly" banks, buy political protection, and oversee the fair distribution of profits from these activities.

By the time Capone began having his problems with the IRS, his enterprises were operating smoothly enough to survive his tax fraud conviction and imprisonment in 1931. Frank Nitti slid into power, backed by Capone's entire empire. Among Nitti's top associates was Jake "Greasy Thumb" Guzik, who was the Chicago underworld link to legitimate business and to the law-enforcement officials, judges, and politicians who walked around the city with their hands out, looking for someone to grease them.

Some politicians who opted to battle the Mafia found themselves in trouble. Chicago mayor Anton Cermak, a hardliner against the Chicago crime syndicate, was shot and later died from his wounds while campaigning with President-elect Franklin D. Roosevelt in 1933. Although it was widely thought that the assassin, Giuseppe Zangara, was really a nut gunning for Roosevelt, Cermak, before his death, insisted

that he was the real target. Cermak added that he had been threatened because of his crusade against the underworld and had purchased a bulletproof vest—which he forgot to wear the day he was shot.<sup>1</sup>

Jules Stein's success in the band-booking business had been so complete that he attempted to get into areas peripheral to his own business, such as bootlegging. In doing so, he stepped on the toes of some powerful Chicago mobsters. The full story of Stein's dealings with the Chicago Mafia is fuzzy. There are conflicting accounts about the extent and true nature of his involvement with the underworld.

According to one version, the Chicago Mafia had watched Stein's successes with envy from the start and had tried to move in on him during the early 1930s, demanding a share of the action. In the midst of Prohibition, while he was booking bands into Chicago's speakeasies, Stein had also started bootlegging whisky and selling it to nightclub owners as part of the deals for his bands. According to Justice Department documents, his thriving sales crossed over into the jurisdiction of Chicago bootlegger Roger Touhy, an arch-rival of Capone.

Supposedly, Touhy had kidnapped Petrillo and held him for \$50,000. Later, he threatened to do the same to Stein or his wife, Doris—whom he had married in 1928—if he failed to cooperate. Stein insisted later that he stood up to Touhy and took out a \$75,000 insurance policy, covering him in the event of his kidnapping. "They tried to muscle in on me, and I never let them," Stein said. "I had the guts of a fool."

Despite all the alleged threats, Stein continued to keep the company of numerous Chicago racketeers and was frequently seen with them at Henrici's Restaurant, the Home Drug Store, and the Palace Theatre, where such entertainers as Jack Benny, Sophie Tucker, and George Jessel performed.

Veteran Chicago crime investigators remained skeptical. "Both Stein and Petrillo made their deals with the major mob guys in this town," one of them said. "Touhy was nothing next to Capone and his boys, and that's where Stein and Petrillo's connections were. All the rest of that stuff about kidnappings was nothing more than high drama, well-contrived and acted out."

Whichever scenario is correct, it is clear that Stein had worked out some sort of accommodation or truce with the mob.

Jules Stein and James Petrillo had close ties to a paunchy little Chicago mobster named Willie Bioff. An ex-pimp and petty thief, the moon-faced and sleepy-eyed Bioff had been financially wiped out early in the Depression. "When things get bad," Bioff lamented, "there ain't

no place for an honest pimp. The Johns are selling nickel apples and the broads are selling two-dollar cherries and who the hell needs me."

According to Justice Department documents, Stein occasionally employed the services of a Bioff employee who specialized in disrupting the operations of theatres and nightclubs that refused to contract business with MCA. A law-enforcement official in Chicago identified the saboteur as Fred "Bugs" Blacker, who specialized in throwing stink bombs into target locations or infesting them with bedbugs.

Around 1931, Bioff met George Browne, the head of the Chicago local union of the International Alliance of Theatrical Stage Employees (IATSE). Together, Bioff and Browne tried to develop some scams. Their first enterprise was a soup kitchen. Bioff's friends in politics contributed money to a program in which Browne's working members could be fed for thirty-five cents a meal and their unemployed brothers could eat for free. Occasionally, a local celebrity or politician would drop by for a bowl of soup and an opportunity to be photographed with the common man. On their way out, they occasionally made donations, sometimes as much as fifty dollars. From the money donated, it was estimated by the Internal Revenue Service that at least seventy-five percent of it was skimmed by Bioff and Browne.

Through additional contributions to the soup kitchen from local theatre operators, Browne became personally acquainted with many of them and their employees. Using these contacts, Bioff and Browne tightened their grip on IATSE, offering workers job protection and more money—but also giving management a no-strike clause in their contracts.

Balaban and Katz, Inc., of Chicago, which owned the largest theatre chain in the country, was the first beneficiary of a Bioff and Browne sweetheart arrangement. Singer Barney Balaban and pianist Sam Katz had begun their business in 1916 by operating a string of nickelodeons. They offered Bioff and Browne \$150 a week for the soup kitchen, in lieu of restoring a twenty-percent pay cut forced upon the workers. Bioff, who handled the negotiations, countered by demanding a lump-sum settlement. In the end, Bioff and Browne received \$20,000 cash in return for labor peace. But very little of that money was spent for the soup kitchen.

Instead, Bioff and Browne went to a gambling casino owned by Nick Circella, a Capone mob member, and lived it up, throwing lots of money around. Their gay mood did not go unnoticed. A few days later Browne received a telephone call from Mafia kingpin Frankie Rio, who demanded fifty percent of whatever business they were in—"or else."

The Chicago underworld was deeply impressed with Bioff and Browne's scam and invited them to two meetings at the home of Frank Nitti, the heir to Al Capone, who was doing time in Alcatraz for income tax evasion.\*

Nitti told his guests that he wanted Browne to run for president of IATSE, an American Federation of Labor union which operated in both the United States and Canada. In 1932, Browne had run for and lost the presidency of IATSE. This time, Nitti explained, Browne would go to the union's June 1934 international convention in Louisville, Kentucky, with the support of his people—namely, Capone's and Nitti's top musclemen, including Tony Accardo, Nitti's number-two man behind Paul DeLucia, as well as Louis "Lepke" Buchalter, Cleveland racketeer Morris Dalitz, and Abner "Longy" Zwillman of Newark, New Jersey, who was one of actress Jean Harlow's lovers and a familiar figure in Hollywood.

With support from his mobster backers, Browne was easily elected as president of IATSE. (Two of his rivals for the presidency had withdrawn from the race after receiving death threats.) After the IATSE convention, Tom Maloy, the business manager of the Motion Picture Operators Union Local 110 in Chicago, was found murdered gangland-style, as was Clyde Osterberg, a IATSE union dissident, who had earlier complained of Bioff's threats against him. Neither killing was ever solved, but the Chicago underworld had made it clear that it would accept no interference from anyone with regard to its takeover of the national IATSE union. Upon his election, Browne immediately appointed Bioff as his personal, full-power representative. In return, the Chicago Mafia was to receive two-thirds of whatever Browne and Bioff took or shook down.

Wasting no time, Bioff returned to Balaban and Katz, making big demands for better employment conditions and wages. The result was another large payoff—this time for \$100,000. Bioff's shakedown scam also worked in New York and in other cities around the country.

The Chicago crime syndicate decided to hunt for bigger game. The new target was the film industry—a cash-rich business that promised fast and steady skim money. In late 1934, Bioff was sent to Hollywood, where IATSE had just lost a prolonged strike against the motion picture studios and, in the process, much of its membership.

<sup>\*</sup>Also in attendance at the sitdowns were other Capone associates: Phil D'Andrea, Charles "Cherry Nose" Gioe, Paul "The Waiter" DeLucia, and Louis Campagna. A New York mob figure was present, too: Louis "Lepke" Buchalter, the head of Murder, Inc., who had been sent by Charles "Lucky" Luciano to represent the interests of the Eastern crime families.

The Depression had hit the film industry hard. Universal Studios, which had been built on a chicken farm by Carl Laemmle in 1912, had dramatically cut back its employment rolls, as had Warner Brothers, established by Jack, Harry, Sam, and Albert Warner in 1919. Such studios as Paramount, which had been founded in 1914 by W. W. Hodkinson and was operated by Adolph Zukor, and United Artists—a 1919 creation of actors Douglas Fairbanks, Sr., Mary Pickford, and Charlie Chaplin, and producer D. W. Griffith—had nearly been driven out of business.

The film industry was ripe for extortion. The Mafia knew that the studio moguls would cave in to its demands, trying to avoid future labor problems. As president of IATSE, the mob-controlled Browne, who was also a vice-president of the AFL, had the authority to order movie projectionists to strike throughout the country.

Mobsters Nick Circella and Johnny Roselli were sent to Hollywood by the Chicago Mafia to oversee its interests. Benjamin "Bugsy" Siegel was already in California, protecting East Coast underworld investments. It was time to achieve trade union dominion in Hollywood.

Bioff and IATSE met a jurisdictional dispute head-on. War broke out between IATSE and the rival United Studios Technicians Guild. Bloody battles were fought on Cahuenga Boulevard in Hollywood and at the gates of one of the studios on Pico Boulevard. According to one account, "The United Guild charged strong-arm tactics and ballot-box-stuffing by Bioff and hired its own 'heavies,' more than 150 longshoremen from the L.A. waterfront. The 'longies' waded into battle with Bioff's soldiers. . . . Heads were broken, blood spilled, and cars over-turned and torched. . . . Bioff's routed the Guild's forces with clubs, gunbutts and fists." Bioff's forces—primarily professional thugs hired by Johnny Roselli—won easily. Roselli had been in Hollywood for several years, working as an "undercover agent" for Pat Casey, a labor conciliator for the Motion Picture Producers and Distributors of America (MPPDA).

The head of the MPPDA was Will Hays, whom the Hollywood moguls had imported to be the moral "watchdog" of the motion picture business.

Hays had been the postmaster general under President Warren G. Harding and had been deeply involved in the Teapot Dome scandal, having taken a \$260,000 bribe on behalf of the Republican Party. Ironically, the "Hays Office" had been created, in part, to survey the impact of gangster films on the American public. Nonetheless, mobsters continued to be portrayed as anti-heroes while the police were made to

be shadowy figures who were generally as corrupt and violent as the targets of their investigations. Hays routinely hired gangsters to bust unions and break heads to avert strikes against the film industry.

"At that time," Roselli said, "I didn't have too much money. About 1933 or 1934 they had a strike in the [movie] industry, and the unions, that is the studios, were in difficulty. The unions were trying to get on to this, I don't know whether it was a demand for higher wages or recognition or what it was. I have forgotten what it was at the time. There was a little rough play around and the studios naturally didn't want it. They didn't want their workers hurt. They needed some cameramen to go back to work, and they had been threatened through some people. They had asked if I could help. I said, 'The only way to help is to fight fire with fire. You don't have to knock anybody on the head doing it, but you can just get enough protection for these fellows so no one will approach them with any rough play.'

"They asked me how much I would charge for this performance of duties. I said, 'I don't want anything, but I would like to get a job.' I said, 'You just pay the men that I will go out and hire to protect these people going to work in the studios, and later on . . . negotiate or [become an] assistant or something,' which later developed. He gave me some expenses. I said, 'You couldn't give me \$100,000 to do this thing, but I will do it for nothing. I will help you all I can."

In 1935—while the Mafia was playing ball with both the unions and the studios—Barney Balaban and Sam Katz moved to Hollywood, where they—along with Leo Spitz, who had negotiated the Balaban and Katz payoffs to Bioff and Browne in Chicago—became three of the biggest names in show business. Balaban was named as the president of Paramount; Katz became a vice-president of Metro-Goldwyn-Mayer; and Spitz became legal counsel for the MPPDA before becoming the president of the studios of Radio-Keith-Orpheum, RKO, which had been consolidated in 1928 by none other than Joseph P. Kennedy, Spitz's predecessor. Later, Spitz founded International Pictures and would be named as president of Universal by its new owners, Robert H. Cochrane and Nate J. Blumberg, who bought out Carl Laemmle in 1936.

By 1937, Bioff and the Chicago Mafia had started shaking down the major film studios, including Twentieth Century, Paramount, MGM, and Warner Brothers, for \$50,000 a year each and the smaller studios—like RKO and Harry Cohn's eleven-year-old Columbia Pictures—for \$25,000.6

Bioff told one studio executive, "I want you to know I elected Browne president, and I am his boss. He is to do whatever I want him to do. Now your industry is a prosperous industry, and I must get \$2 million out of it."

Bioff later boasted, "It was like taking candy from babies. When I snapped my fingers, them producers jumped."

The middleman between Bioff and the studios was the president of the Motion Picture Producers Association, the lumbering, squinty-eyed Joseph Schenck, a former New York pharmacist who had moonlighted as an illegal drug dealer. In 1935, Schenck and former Warner Brothers executive Darryl F. Zanuck founded Twentieth Century, Inc., which merged with William Fox's Fox Film Corporation in 1938; the new company was Twentieth Century-Fox. Schenck—whose brother, Nicholas, had founded Metro-Goldwyn-Mayer and the Loew's theatre chain in 1924 with Marcus Loew\*—had given Bioff a \$100,000 payoff in return for guarantees of labor peace between IATSE and the studios. Schenck tried to disguise the extortion money as a loan.

The payoffs simply ensured that motion picture productions came off on schedule without problems from the 12,000 IATSE members, who were assessed two percent of their earnings by Bioff and Browne for no particular reason for forty-three weeks, beginning in December 1935. The total skim from the IATSE membership alone was over \$1.5 million.

A top IATSE official recalled, "They got the two percent, and they never accounted for that. We agreed to give it to them on those terms, because we were in trouble. And we were being pushed around by big guys. And it took money, we knew, to save our union and to save our jobs."

Some of the studio moguls tried to appear acrimonious, but they could see the figures: movie profits were up and unemployment was up with fewer people, now under tight union control, to pay. It was a perfect setup for management. The Internal Revenue Service estimated that by making the payoffs, the studio moguls saved \$15 million that would have gone toward employee wages and benefits.

Bioff explained, "I've found that dickering with these picture producers goes about the same all the time. You get into a room with them, and they start yelling and hollering about how they're bein' held up and

<sup>\*</sup>Nicholas Schenck and Marcus Loew had merged Metro Pictures and Goldwyn Pictures and named Louis B. Mayer as its head. When Loew died in 1926, Schenck renamed the company Metro-Goldwyn-Mayer.

robbed. That goes on and on. Me, I'm a busy man and don't get too much sleep. After a while it dies down, and the quiet wakes me up, and I say, 'All right, gentlemen, do we get the money?' "8"

By 1937, with Bioff and Browne controlling IATSE, Petrillo cemented into power at AFM, and friends—like Balaban, Katz, Spitz, Cohn, and the Schencks—at the major studios, the Mafia had a stranglehold on the film industry.



In 1937, the same year that Bioff began shaking down the studios, Stein decided to challenge the William Morris Agency as the top talent agency in the country by creating an office in Beverly Hills. He placed a young agent, Taft B. Schreiber, in charge. Schreiber had walked into MCA's Chicago office eleven years earlier, looking for a job with a band, and was hired as Stein's messenger boy. "I had been a high school musician in Chicago," Schreiber said. "At the time there were only three people in MCA: Jules Stein, Billy Goodheart, and a secretary."

Earlier, on December 16, 1936, Stein had hired Lew R. Wasserman, a Cleveland theatre usher and former candy peddler in a burlesque house. Born on March 15, 1913, Wasserman had moonlighted as the publicity director for the Mayfair Casino, a local nightclub in Cleveland. Although Wasserman had no more than a high school education, Stein made him MCA's national director of advertising and publicity. Wasserman's starting salary was \$60 a week. Within two years—during which he wrote and handed out press releases—Wasserman was tapped as Stein's protégé and made a company vice-president.

Another early MCA employee, who would become a phenomenon in the entertainment business, was David A. Werblin. Born in Brooklyn in 1910, Werblin, a ruggedly good-looking former football player at

Rutgers University, had studied to be a journalist and had worked as a copy boy for *The New York Times*. At MCA, he started with a part-time job, working as Goodheart's office assistant in New York, performing menial chores for twenty-one dollars a week. Goodheart frequently taunted Werblin, calling him "Sonny boy." The nickname "Sonny" stuck, but the bad treatment did not. Werblin solidified his role as a "go-fer" when he became the band-boy for Guy Lombardo's orchestra; his jobs were primarily carrying instruments for the musicians and fetching coffee. But when Goodheart left MCA just prior to World War II, Sonny Werblin was selected to succeed his boss as head of the New York office.\*

In California, Stein quickly moved MCA Artists, Ltd., into the business of representing general talent, not just musicians. He targeted Hollywood's most famous and established movie stars to become clients with his company. His first campaign was for actress Dorothy Lamour, but he failed to sign her until years later.

However, soon after, MCA scored its first big Hollywood triumph, signing actress Bette Davis, who had won the 1935 Academy Award for Best Actress for her role in *Dangerous*. (Her performance in *Jezebel* in 1938 would win her a second Oscar.) Stein had been so obsessed with landing Davis as a client that he placed her husband Harmon Nelson's best friend, Eddie Linsk—who for unknown reasons was nicknamed "Killer"—on the MCA payroll for two hundred dollars a week. Within a few weeks, Linsk had convinced Davis to switch agencies and join MCA.

More stars followed Davis's lead, among them Joan Crawford, John Garfield, Betty Grable, Bill Demarest, and Jane Wyman—just as bandleaders had followed Guy Lombardo to Stein a decade earlier.

During the early years of World War II, MCA continued to raid other agencies, stealing away clients. MCA had little interest in discovering new talent—it wanted big-name stars. If those stars were already represented by someone else, no problem; they could be bought off one way or another. Agent Jimmy Saphier lost bandleader David Rose when MCA offered Rose \$20,000 cash to change firms and become one of its clients. Jules Stein also tried to woo Harry James's solo vocalist Kitty Kallen away from his band for a career of her own. The problem was that James was an MCA client—as was his wife, Betty Grable—and bad feelings resulted. Johnny Beck, the top agent with Associated

<sup>\*</sup>Goodheart later became the vice-president of network sales at NBC.

Artists, was also bought out by MCA, and he was put in charge of MCA's motion picture division.

Perhaps the biggest losers during the early MCA empire-building days were the small, unknown groups. These bands were treated like common freight, haphazardly thrown onto shipping vessels and sent from one port to the next. MCA's common practice was to organize these groups and then ignore them, or to force them out of business to make way for someone else.

For example, Kearney Walton, Jr., was employed as an orchestra leader at the Biltmore Hotel in Los Angeles from 1936 to 1938. The hotel was owned by Baron Long, a tough businessman with long-standing ties to major Mafia figures. In 1938, an agent for MCA came to Walton and asked him to sign an exclusive contract. When Walton told Long that he had been approached by MCA, his employer told him that if he signed with MCA he would lose his job. Long simply did not want someone driving a hard bargain for his bands.

Walton didn't sign with MCA then, but soon he was sent to Omar's Dome, a nightclub owned by Long's brother-in-law. After several months, the MCA representative made him another offer. This time, with his engagement at Omar's Dome ending, Walton decided to sign. The MCA contract provided that Walton could not be represented by anyone else—but contained no guarantees for future work.

Walton did work, but not at clubs like the Biltmore. Instead, he played in small clubs in Laguna Beach and Pismo Beach—without any regularity. In the end, Walton "was starved out of the business." Ironically, soon after, Baron Long signed with MCA to ensure entertainment for the Biltmore.

In desperation, Walton wrote a letter to the U.S. Department of Justice, complaining that "MCA had monopolized the big-band business by forcing its representation on nearly all of the industry—via its contracts with hotels, resorts, dance halls, and night clubs, as well as with the bands themselves." In addition, Walton alleged that MCA had a sweetheart relationship with James Petrillo and the top officials of the American Federation of Musicians, who, in violation of AFM rules, permitted MCA to maintain exclusive contracts with hotels and night-clubs.

Walton's letter touched off a storm of investigations focusing on MCA that would last for decades. In 1941, acting on one of Walton's suggestions, George Maury, a special attorney for the Justice Department's Antitrust Division in Los Angeles, interviewed Lindsey "Spike"

Jones, the leader of a small, independent band. Jones, Walton had said, could be helpful to the government's investigation because of his own experiences with MCA.\*

Formerly represented by MCA, Jones, like Duke Ellington and Count Basie, had left the agency in 1939 after Willard Alexander, a top MCA agent, had defected to the William Morris Agency. Jones told Maury that MCA controlled most of the big-name bands in America and Canada, and at least seventy-five percent of the entire band-booking business.<sup>2</sup>

"How has MCA become so successful?" Maury asked.

"They've devised a system of rotating bands in all these places they play," Jones replied. "The system's so perfect that without the MCA contract, a bandleader can't make enough bookings to make a living, and the clubs can't get bands unless they sign their contracts with MCA."

Jones charged that MCA engaged in a variety of "unethical practices" and would often "run down" and ridicule bandleaders not under its wing.

"What about Stein and the AFM?"

"Stein's a member of the union, its Chicago local, and he's present at nearly every AFM meeting."

Jones concluded the interview by telling Maury that MCA had made its big move in Hollywood—in an attempt to launch its drive to represent stars in the motion picture industry. Its only competition would come from the William Morris Agency, the Myron Selznick Agency, the Hayward-Deverich Agency, and the General Amusement Company. Already, Jones said, many of the bands represented by these companies were trying to buy out their contracts so that they could sign with MCA.

Meantime, Assistant Attorney General Thurman Arnold had become concerned that radio broadcasters were not only broadcasting but were also involved in phonograph and record production, and the business management and representation of some of their own employees. As head of the Antitrust Division under President Franklin D. Roosevelt, Arnold was responsible for forty-four percent of all the antitrust actions that had been taken by the Justice Department since the passage of the Sherman Antitrust Act in 1891. Earlier, Arnold had forced General Electric and Westinghouse to sell its interests in RCA—and, thus, NBC. Arnold demanded that if these companies were

<sup>\*</sup>Jones and his ragtag band, which included washboard and kazoo players, would later sell millions of copies of their first big hit, "My Two Front Teeth."

going to remain in the broadcasting business, they would have to compete with RCA and NBC.

Arnold authorized Victor Waters, another assistant attorney general, to call a meeting with the three principal radio networks—CBS, Mutual, and NBC—"to discuss various phases of chain broadcasting and the entire question of possible monopolistic practices on Saturday, October 25 [1941]."

At the meeting with the network executives, Waters restated an FCC warning of the growth of conflicts of interest between broadcasters and artists, and "the unfair control by broadcasters over the supply of talent." The networks were also told that if they "did not divest themselves of their activities in the artists' management field the matter would be turned over to the Department of Justice for inquiry." James Petrillo and the AFM agreed and pushed for action.

Of the three networks, only CBS agreed to relinquish its representation of artists, selling its rights to MCA for a reported \$500,000. The others, NBC and Mutual, decided to ignore the FCC—although rumors were afloat that William Morris was going to bid for NBC.6

"[W]hat gave MCA its great impetus on bands was its deal with CBS when the AFM forced the [radio] networks to get out of the big-band business," a Justice Department memorandum reported. "MCA not only obtained all of the CBS bands, but also got access to CBS lines for radio broadcasts any time MCA wanted it. This meant that many of the bands gravitated toward MCA to get national exposure on CBS."

The same week as the hearings with the networks, Tom C. Clark—the chief of the West Coast Regional Office of the Justice Department—following up on Maury's investigation, sent a letter to Thurman Arnold, citing the Walton letter and more information on the sweetheart relationship between Jules Stein and James Petrillo. Arnold replied to Clark two weeks later, asking him to monitor the MCA situation in California. But the Justice Department's investigation of MCA remained dormant for several months.

On April 3, 1942, another dissident MCA client brought the FBI into the act. Al Stone, representing the vaudeville team of Stone and Lee, wrote a letter to J. Edgar Hoover, the director of the FBI. Stone reported that he was in the midst of litigation against MCA, charging the talent agency with, among other things, breach of contract. Stone claimed that, although MCA had offered a settlement, he was going to fight the matter in court to draw public attention to MCA's tactics and attempts to monopolize the entertainment business.

Stone alleged that MCA and entertainer Danny Dare were involved

in an exclusive representation contract with the Danny Dare Review. Stone and Lee were one of the acts in the show. While with the Review, they played for three and a half weeks at the El Cerrito and four weeks at the Ambassador Hotel in Los Angeles, followed by twelve weeks on the road with the comedy team of Laurel and Hardy in the summer and fall of 1940. According to Stone, MCA raked in all profits above the salary list at both the El Cerrito and the Ambassador, in addition to its ten-percent commission for Dare's show while it was on the road. Stone charged that the Dare Review received \$7,000 for the El Cerrito engagement though the salary list was only \$2,695, and \$5,000 from the Ambassador while the salary list was \$2,200.

When Stone discovered the extent of MCA's cut—in addition to its ten-percent commission—he and his partner said they would go to court. Consequently, Stone claimed, MCA threatened to keep them out of work. "That is another evil in show business," Stone wrote. "If an actor steps out of line with any of these big [corporate] agencies or bookers, they have enough influence to call the proper people and give the word . . . DON'T BOOK STONE AND LEE [emphasis Stone's]. This has been a common practice in show business for many years. . . . I am sure, Mr. Hoover, that if this organization was investigated you would find that they have nothing on an octopus."

Blackballed by MCA and back on the street, Stone and Lee had tried to file for unemployment compensation but were rejected. Deciding to take MCA to court, Stone and his wife sold nearly all their possessions and spent everything they had fighting MCA. Several of their colleagues, like Laurel and Hardy, who had also been hurt by MCA, feared similar reprisals and refused to testify on their behalf. Stone and Lee eventually lost their case and faded into obscurity.

Over a year passed after Stone's complaint to Hoover. Then, on April 30, 1943, Tom C. Clark sent a memorandum to the attorneys on his staff, advocating a government investigation of MCA. Antitrust attorney George Maury dissented, stating that only two witnesses, Kearney Walton and Spike Jones, had been interviewed, and no clear evidence showed a conspiracy between MCA and the AFM. In addition, Maury said, most of the big-name band members had joined the military in the midst of World War II.

"In view of the scantiness of the material and the almost impossibility of aiding the war effort by any such investigation at present," Maury wrote, "it is my best suggestion that any further investigation of this situation should be postponed for the duration of the war."



IN 1938, Jeff Kibre, a studio craftsman and head of the IATSE progressives, filed a formal complaint with the National Labor Relations Board on behalf of the Motion Picture Technicians Committee. Based on information he received during an IRS audit of Joseph Schenck's 1937 income tax returns, Kibre charged that Willie Bioff and George Browne had taken a \$100,000 payoff from Schenck, the president of the Motion Picture Producers Association, "in return for which the IA locals were turned into company unions which have been going through the motions of collective bargaining."

A 1931 graduate of UCLA, Kibre came from a family of Hollywood set decorators. He had wanted to become a writer but went into the labor movement when he first became a studio craftsman. Kibre was viewed by nearly all who knew him as a good, honest, and dedicated man. Becoming more militant and aligning himself with leftist causes, Kibre was an easy target for those who disagreed with him—because of his politics. On at least one occasion, Bioff's goons came to Kibre's home and beat him up. Nevertheless, Kibre's charges—and the investigation that followed—shook Hollywood like an earthquake.

Others also went after Bioff. Arthur Ungar, the crusading editor of Daily Variety, began writing a series of exposés about Bioff, Browne,

Schenck, and the whole IATSE scam, which was now threatening the independence of writers, directors, and actors. The Screen Actors Guild (SAG) had also grown fearful of Bioff's pressure. It published a full-page ad in *The Hollywood Reporter*, \* which stated, in part: "The IATSE is a very real menace. . . . Writers will find themselves in a boss-ruled union overnight if they stand alone. . . . IATSE can never take over writers if writers stand shoulder to shoulder with the actors' and directors' guilds. . . ."<sup>2</sup>

Former SAG president Robert Montgomery proposed that the Guild appropriate \$5,000 to hire a private investigator to look into Bioff's background. That probe yielded details of Bioff's sleazy criminal past and associations.† Information was fed to Ungar, who, in spite of Bioff's threats against him, declared all-out war against the labor racketeer. But Bioff's problems were just beginning.

The break in the investigation came when federal investigators discovered that Schenck had received thousands of dollars in unreported cash through some of his investments and had been making payoffs to Bioff. Charged with income tax evasion and faced with stiff fines and a long stretch in prison if convicted, Schenck decided to talk and provided federal agents with details of the studios' \$1.2 million in payoffs to Bioff and Browne. However, Schenck claimed that he was not aware of the extent to which Bioff and Browne were involved with the Chicago Mafia and could offer no information about it.

In return for Schenck's cooperation, the government dropped its tax evasion charges against him. Schenck pleaded guilty to one count of perjury. Sentenced to a year in jail, he was paroled after serving only four months and was later given a full pardon. He was, however, replaced as president of Twentieth Century-Fox by Spyros Skouras.

On May 23, 1941, Bioff and Browne were indicted on charges of extortion and racketeering by a federal grand jury. With Joseph Schenck's testimony, Bioff and Browne were convicted and sent to Alcatraz for ten and eight years, respectively. After being indicted, Bioff waved the American flag and told the press, "The unions on the West Coast are infested with communism. We expelled eighteen members during the last four years on charges that they were members of the Communist Party. We eliminate them as fast as we can. Our posi-

<sup>\*</sup>Billy Wilkerson, publisher of *The Hollywood Reporter*, had previously made a deal with Bioff in which the trade paper would not publish news about studio-labor relations.

<sup>†</sup>Among the details of Bioff's past uncovered by *Daily Variety* and SAG was that he had not served his full jail term for an old pandering conviction. On April 15, 1940, Bioff was extradited back to Illinois, where he served six months in Chicago's Bridewell.

tion won't allow anything to stand in the way of the defense program [World War II]."

The U.S. government bought the story that the studio moguls had been subject to extortion and were the poor victims of Bioff—not that they had been co-partners in a conspiracy to keep employees' wages low and their union under tight control.

Two years later, government investigators in New York uncovered evidence of the Mafia's earlier plot to take over Hollywood through Bioff and Browne. Confronted with the information, Bioff decided to talk, implicating Frank Nitti, Johnny Roselli, Phil D'Andrea, Charles "Cherry Nose" Gioe, Paul Ricca, Nick Circella,\* and Louis Campagna.

On the day the indictments were returned, Nitti, who had already done time for income tax evasion, shot and killed himself.†

Generally overlooked in press accounts during Bioff's testimony were his statements about a young labor lawyer he had been introduced to in 1939 at the Bismarck Hotel in Chicago by mobster Charles "Cherry Nose" Gioe. Bioff testified that, in very explicit terms, Gioe pointed to the lawyer and told Bioff, "[He] is our man, and I want you to do what he tells you. He is not just another lawyer but knows our gang and figures our best interest. Pay attention to him, and remember, any message he may deliver to you is a message from us."

The young attorney's name was Sidney R. Korshak.

Prior to Bioff's extortion indictment, Korshak—who was also a friend of Johnny Roselli—had called Bioff and asked to talk.

Bioff said that he and Korshak had a meeting in the attorney's room at the Ambassador Hotel in Los Angeles and "talked about everything in general." Bioff recalled, "He [Korshak] asked me about all these indictments [of Bioff and Browne]. I says, 'All I know about them at this time is what I have read in the newspapers.' He says, 'Well, are you prepared with your defense?' I said, 'No, not altogether.' He said, 'Well, Joe will be the next victim. Joe will be the man that you [gave] the money to, Joe Schenck'; that he [Korshak] had seen a transcript of

<sup>\*</sup>According to author Ed Reid in *The Grim Reapers*, in an effort to silence Circella—who was thought to be a weak link and a possible future informant—syndicate killers broke into the home of his lover, Estelle Carey, "tied [her] to a chair in her apartment, poured gasoline over her, and set her afire. Her pet poodle, cowering in the corner of the room, was the only witness to the crime."

<sup>†</sup>Louis "Lepke" Buchalter, who was involved in the shakedown scheme, too, was not indicted but had already been convicted of murder; he was executed in New York's electric chair in 1944. Benjamin "Bugsy" Siegel was also not implicated, having spent less time in California and more time in Nevada—where gambling had been legal since 1931.

Schenck's [statement]; that there is enough material left there by the government to give any jury good reason to believe that I turned this money over to Joe Schenck [making Schenck the fall guy]. . . ."

"In other words, at your forthcoming trial you were to testify that way?" federal prosecutor Boris Kostelanetz asked.

"Yes."

"... Sidney Korshak in this case deceived you, is that right?"

"Well, I don't know whether he deceived me. He advised me to lie." Later, Bioff testified that Korshak—who had also represented George Browne after his conviction—had arranged for him to get \$15,000 for his defense.

Born on June 6, 1907, and raised on Chicago's West Side, Korshak was the son of Sidney and Beatrice Korshak, refugees from Lithuania. A basketball star in high school, he graduated from the University of Wisconsin, where he was a champion boxer. He earned his law degree in 1930 from DePaul University in Chicago.

At the time of Bioff's testimony, Korshak was in the U.S. Army, serving as a military instructor at Camp Lee, Virginia. Two months after entering the service, he ran into Bernice Stewart, a former model, dancer, and ice-skating star whom he had met in Los Angeles in 1941. Two years later, they were married at the Ambassador Hotel in New York City by a city magistrate. He was discharged from the service as a corporal two years later. Upon his return home, he and his brother Marshall—a graduate of John Marshall Law School in Chicago—set up a legal practice in downtown Chicago. Marshall was actively involved in the local Democratic Party. Both of them quickly achieved legitimacy, socializing with bankers, business executives, show people, sports figures, and politicians.

According to statements made to government investigators by Gioe—who had been sent by the Chicago underworld to run the mob's rackets in Iowa until 1939—he had met Korshak in or about 1933, three years after Korshak graduated from DePaul. Soon after, Korshak was formally introduced to the Chicago underworld by Gioe associate Gus Alex, a Greek member of the local syndicate who handled the mob's operations in and around the Loop. Alex was a favorite of Tony Accardo and Jake "Greasy Thumb" Guzik, who was in charge of making the Chicago mob's political payoffs.<sup>4</sup>

After Korshak's name came out in Bioff's 1943 testimony, FBI agents did a background check on Korshak but discovered nothing in their files; he had no criminal record. He had been arrested only once, in May 1931, along with his brother Ted, for starting a brawl in the

Show Boat nightclub in the Loop. When the police searched the Korshak brothers, a gun was found in Sid's pocket. Charged with carrying a concealed weapon, Korshak was held on \$2,400 bond. At his arraignment, the charges were dropped.

Further inquiries made by the FBI revealed that Korshak, who lived in the mob-owned Seneca Hotel in Chicago, "had represented one George Scalise, who was at that time international president of the Building Service Employees with offices in New York City. In 1940 Korshak was receiving a \$1,200-per-month retainer fee from Scalise to draft a new set of by-laws for the union that would enable him, among other things, to break up any union local into small units which he could reassemble as he saw fit. This would be a potent weapon against any recalcitrant local. Scalise was a New York hoodlum and ex-con and was indicted in New York City by Thomas Dewey for alleged extortion from hotels and contractors."

Scalise, according to a confidential report of the Chicago Crime Commission, "allegedly drained the union treasury of an estimated \$1.5 million in three years. After an investigation by the Cook County Grand Jury into the conduct of the Building Service Employees International Union and the manipulation of its finances by Scalise, who was ousted as president in April 1940, he was indicted by the district attorney of New York on charges of extorting more than \$100,000 from hotels and cleaning contractors. It was alleged that on January 4, 1939, Scalise 'bought' some fifteen locals of the Elevator Operators Union.

. . . The locals were handed over to Scalise's international by the International Union of Elevator Constructors, Operators and Starters in return for \$10,000 drawn by Scalise from his treasury. Thereafter the dues of the locals flowed into Scalise's treasure chest."

According to another government report, dated July 25, 1942, and developed by the intelligence division of the Internal Revenue Service during the aftermath of the Bioff/Browne trial, "Our informers have stated that Sidney Korshak, a lawyer in Chicago, Illinois, is often delegated to represent the Chicago gang, usually in some secret capacity. Since the conviction of Browne and Bioff on charges of racketeering, Korshak acts as Browne's attorney. He paid Browne's \$10,000 fine and we are reliably informed that the gang [the Chicago Mafia], and not Browne, produced that money. . . .

"John Smith [the successor to Tom Maloy in Chicago's Motion Picture Operators Union Local 110] testified that about one year and a half ago, [an associate] telephoned him that George Browne had expressed the opinion that Local 110 should employ an attorney. Kor-

shak subsequently appeared on the scene. Smith states that he was not employed or paid any money. He [Smith] did testify, however, with respect to the election of union officials on March 4, 1942."

Q: How much money did you draw to pay off the policemen?

A: About \$1,000; made out a check for them.

Q: Made out to cash?

A: I don't know whether Pete cashed the check or I cashed the check.

Q: Did the police get the entire \$1,000?

A: Yes.

Q: Was Sidney Korshak in the picture?

A: Well, he asked me if I wanted protection and I said no. At that time he thought I was going to hire him as attorney for the local and since there is trouble here I don't want no part of Korshak.<sup>7</sup>

According to federal investigators, one of those people who did turn to Korshak was Jules Stein, the president of MCA. "Korshak and Stein had met each other back in the early days of Chicago through the band-booking business," an FBI agent said. "They were introduced by Joe Glaser, a mutual friend who ran his own booking business [Associated Booking]. Stein knew that Korshak was connected [to the Mafia], and he went to him when he wanted to get a message to someone or wanted something done. . . . Korshak was also a friend of James Petrillo's."



ON MARCH 20, 1945, a major antitrust suit was filed against MCA by Larry Finley, who had leased the oceanfront Mission Beach Amusement Park and Dance Hall for three years from the city of San Diego, hoping to draw servicemen from nearby military installations and those returning home from the Pacific theatre. Finley had planned to operate Mission Beach six nights a week. Its dance floor was the largest and its sound system the best in San Diego. No alcohol was to be served, thereby guaranteeing civilized and well-behaved patrons. Both San Diego's mayor and the city council were impressed with Finley's credentials and his plans for Mission Beach. In addition, Finley had promised the city some \$20,000 a year and a piece of the profits for the lease.

Finley—who had begun his career in the music business as a pianist and an orchestra leader fifteen years earlier in upstate New York—had obtained the Mission Beach lease in November 1944, at which time Larry Barnett, MCA vice-president in charge of band-booking, and MCA agent Harold Eames Bishop had pledged to supply him with a variety of name bands at market rates. To celebrate the opening of his dance hall, Finley planned a massive gala for early February 1945. But MCA failed to produce the big-name bands for the affair.

Asking for triple damages under Section 7 of the Sherman Antitrust Act in his \$3.1 million suit, Finley charged that MCA, Jules Stein, Barnett, and Bishop had conspired to freeze him out of the entertainment business in San Diego. His evidence appeared to be overwhelming.

After Finley had initially threatened court action, MCA offered him the King Sisters for a two-day gig, February 10–11. This offer further infuriated Finley, because the King Sisters had just had a three-night stand at the Pacific Square Ballroom, located in downtown San Diego in the city's civic center, February 2–4. MCA also offered Jack Teagarden for two nights for a \$2,500 minimum guarantee and fifty percent of the gross receipts, and Ted Fio Rito under the same terms. Finley insisted that MCA's scale was excessive and much higher than the fees charged other ballrooms.

Finley gave MCA the names of the bands he wanted for Mission Beach. But nearly all of those he named had been booked into the Pacific Square, owned and operated by Wayne Dailard, who had held the rights to Mission Beach before Finley outbid him in November 1944. Dailard, who had been an executive with RKO for thirteen years and was the former managing editor of the San Diego Exposition, had primarily booked Black and country-western bands—like Bob Wills and the Playboys—when he ran Mission Beach, hoping that Pacific Square would flourish as a result.<sup>1</sup>

Finley's attorneys obtained a copy of MCA's contract with Dailard, which had been drawn up while Dailard was operating Mission Beach. It provided that he had "first refusal on all orchestra bookings for the city of San Diego." In return, Dailard promised to accept "seventy-five percent of the orchestras offered . . . or a minimum of thirty-five orchestras per year." Finley charged that MCA had similar exclusive arrangements with other operators around the country, like Jantzen Beach Park in Portland, Oregon. In these cases, MCA usually demanded that booking fees for other agencies bringing in acts be split with MCA when these non-MCA performers played at these exclusive clubs.

According to Barney McDevitt, a Finley public relations man, as soon as Finley brought suit, MCA offered him the exclusive band rights in Oakland, California, if he would drop the whole matter. Finley refused.<sup>3</sup>

Sparked by the Finley case, the Justice Department's Antitrust Division resumed its preliminary investigation of MCA, which had been dropped in 1943. Paul Fitting, another antitrust attorney in Los An-

geles, interviewed Ralph Wonders, manager for the General Amusement Company in Hollywood, then one of the largest band-booking agencies. Among the bandleaders handled by General Amusement were Glenn Miller, Jimmy Dorsey, Charley Spivak, Cab Calloway, and Woody Herman. It also represented a variety of other artists and had booked several acts for Larry Finley at Mission Beach when his legal problems with MCA began.

Wonders told Fitting that he had seen the contract between Wayne Dailard and MCA, adding that it was the only such contract he had ever seen. "But," Wonders said, "a lot of the ballrooms have dealt with MCA exclusively. They knew that they could only get their bands if they dealt with them exclusively. . . . I know of one bandleader, who's represented by MCA, who owes them \$19,000."

"Do any of the dance halls complain about MCA's tactics?" asked Fitting.

"Sure, lots of them do. But, until Larry Finley, no one had the guts to do anything about it. See, the problem is MCA's full-line forcing policy. The dance halls have to be willing to take the B- and C-grade bands, and then they'll get the bigger-name groups if they don't complain too much."

"What about bands splitting commissions [between MCA and a talent agency representing a band performing at a club with an exclusive contract with MCA]?"

"That's a common practice; it's sort of the general rule. Some of the bigger bands can put up a stink and avoid it. We had to split commissions with MCA on Stan Kenton and Spike Jones, but not on Jimmy Dorsey, Charley Spivak, or Woody Herman [who were all GAC clients]. I tell you openly that we split commissions on the Jantzen Beach Park Ballroom in Portland. That's the business."

"How have you fellows been able to break through the MCA stranglehold over the industry?"

"We've done all right in Chicago and at the New Yorker and the Pennsylvania hotels in New York. They used to be exclusively MCA; now they book General Amusement's bands. In the two New York hotels, the new managers are personal friends of mine and, during the war, there just weren't enough good bands available."

"What about in Los Angeles?"

"I can still get a good band in anywhere. MCA has about thirty-five percent more name bands than I do, and we're as big as William Morris—which represents Artie Shaw, Vaughn Monroe, and Duke Ellington, as well as Count Basie, Dizzy Gillespie, and Charlie Parker—and the

Frederick Brothers Agency, which runs fourth. But, for all of us, the big money is in the one-night stands. A good promoter can rent out large auditoriums for a night, book a big band, and make plenty for everyone."

"What about the unions? Who do you deal with? AFM?"

"Sure, we deal with AFM. We deal with the American Guild of Variety Artists. We deal with the Screen Actors Guild and the American Federation of Radio Artists."

"So what does the AFM do?"

"They appoint the booking agent as the exclusive agent, in return for commission of ten percent on steady engagements, and twenty percent on engagements of three days or less. The AFM obligates the booking agency, the bandleader, and the members of his band to stay in good standing with the union, and provides that the executive board of the American Federation of Musicians be the final arbiter of any disputes coming out of the contract."

Fitting also interviewed Billy McDonald, who was in charge of bands for Frederick Brothers, the smallest of the four agencies representing name bands. It numbered among its clients Lawrence Welk and Wingy Manone. McDonald had been a West Coast bandleader, represented by MCA for nearly ten years. He told Fitting that he was still on excellent terms with the corporation but had a couple of complaints with its handling of his career. Mostly, he had been upset because MCA had refused lucrative bookings without consulting him.

As a booking agent, McDonald was among the first people Larry Finley turned to after his falling out with MCA. According to McDonald, Finley had had big problems trying to get bands for Mission Beach. "Finley got Henry Busse [a bandleader] from the William Morris Agency. In fact, the agent had to go through MCA to get him. Normally, Busse received something like \$600-\$800 a night and maybe \$1,500 for two. Finley was forced to pay \$2,750 for a two-night stand."

Despite the antitrust investigation, MCA continued to expand.\* And as MCA expanded, disgruntlement among some of the major bandleaders grew as well.

Did MCA work for them or did they work for MCA? Why did they feel completely dominated by their agency? Jack Teagarden recorded an album, "Jack Hits the Road," with the theme, "You won't see me

<sup>\*</sup>By the end of World War II, the bandleaders represented by MCA included Jan Garber, Ted Fio Rito, Ted Lewis, Benny Goodman, Freddie Martin, Jack Teagarden, Bob Chester, Phil Harris, Skinny Ennis, Les Brown, Bernie Cummins, Al Donahue, Henry King, Harry Owens, and Tommy Tucker, among others.

for many a day, because I'm on the road for MCA." Tommy Dorsey had been quoted as saying, "They [MCA] make me so mad I could cut their throats, but I've got to play ball with them." When the term of Dorsey's contract with MCA ran out, he put a large ad in a trade paper, exclaiming: "Whew . . . I am finally out of the clutches of you-know-who."

Two other bandleaders, Benny Goodman and Horace Heidt, had frequently protested—to no avail—against the bookings MCA had given them. Both musicians had even gone to the AFM and James Petrillo, seeking relief from their grievances against MCA, but were turned down by the AFM's executive board—which, each time, ruled in MCA's favor. As a result, both Goodman and Heidt actually disbanded their groups—and didn't play regularly again until their contracts with MCA expired in 1946. Until then, when Heidt did book his own act and perform, he was still required to pay MCA its ten-percent commission. During the interim Heidt lost his radio sponsor—which then backed another MCA show.

In April 1945, after three months of negotiations, MCA absorbed the prestigious Hayward-Deverich Agency of Beverly Hills, and the Leland Hayward Agency of New York. Both Leland Hayward and Nat Deverich were immediately named as vice-presidents of MCA Artists with ten-year employment contracts. Hayward—who had been pressured by his wife, actress Margaret Sullavan, to give up his business—also became a member of MCA's executive board.

Hayward had become an agent in 1930, joining the Myron Selznick Agency in New York. Soon after, he broke away and started his own firm. In 1937, Hayward and Deverich, who had been a vice-president of the Myron Selznick Agency,\* became partners and started their own business in Hollywood.

Hayward-Deverich represented over three hundred clients, mostly playwrights and screenwriters, eighty of whom were based in Hollywood and ninety-two of whom were involved in Broadway productions in New York. Included among the actors were Greta Garbo, Ginger Rogers, Fred Astaire, Barbara Bel Geddes, Henry Fonda, Jimmy Stewart, Alfred Hitchcock, Ethel Merman, Laurence Olivier, Vivien Leigh, Barbara Stanwyck, Shirley Temple, Katharine Hepburn, and Gregory Peck. Hayward-Deverich also had represented the writers Arthur Miller, Dorothy Parker, and Dashiell Hammett.

MCA's domination of the top Hollywood talent was nearly complete.

<sup>\*</sup>MCA had also raided the Myron Selznick Agency, taking such clients as Errol Flynn, Paulette Goddard, and Ingrid Bergman.

The big names meant bigger pictures, bigger salaries, and bigger commissions. According to a Justice Department document, "These top stars are the only ones who can be used as bankable credit—i.e., banks will loan money for financing a picture solely because a producer has one of these stars available. Without at least one of these stars, it is virtually impossible to get financing for a major motion picture."

To federal attorneys, the major motion picture studios had always attempted to monopolize what the American people heard and saw at their local theatres. To the movie moguls, the American government had always tried to restrict their ability to participate in the free-enterprise system.

As early as 1938, the Justice Department's Antitrust Division had filed suit against the eight big motion picture companies—Paramount, Loews, RKO, Warner Brothers, Twentieth Century-Fox, Columbia, Universal, and United Artists—for "combining and conspiring to restrain trade in the production, distribution, and exhibition of motion pictures," in violation of the Sherman Antitrust Act. Essentially—in what became known as simply "the Paramount case"—the federal government wanted to prove that the studios had tried to control the production, distribution, and exhibition of all motion pictures. Five of these companies—Paramount, Loews, RKO, Warner Brothers, and Twentieth Century-Fox—owned their own strings of theatres and, of course, gave them the first opportunities to offer Hollywood's best films. Consequently, the government claimed that the major motion picture companies were engaged in block-booking, forcing independently owned theatres to accept the bad, low-grossing films in order to get the occasional blockbusters. Through this practice of block-booking, the studios began to control more and more of the first-run theatres.

Columbia, United Artists, and Universal owned no theatres but were linked with the five major studios because of allegations of price-fixing and illegal trade practices.

Thurman Arnold, the head of the Antitrust Division, charged that the motion picture business had become "an industrial dictatorship and distinctly un-American," insisting that such concentrations of power were a threat to democracy, as well as an unfair tax on the people. Arnold said, "The danger in this country is the private seizure of power. It is subject to no checks and balances, it is subject to no elections every four years, it is subject to no criticism and no attacks because no one even knows about it." He added that he was interested in "abolishing all monopolistic practices in the motion picture industry." By October

1940, a settlement had been reached, although few changes were made. Many theatre operations remained under the control of the big studios.

In August 1944, the Justice Department asked for a new trial. This time, treading lightly on the alleged antitrust violations, the government pushed for "divorcement"—to divorce theatre interests from the studios' production and distribution enterprises. As the trial started on October 8, 1945, the motion picture companies, in their defense, insisted that strict obedience to federal antitrust laws would destroy the film industry—to which the government replied that the studios needed to petition Congress to obtain exemption from the Sherman Antitrust Act.

The trial lasted nearly three months. When the court decision was read on December 31, 1945, the studios were cleared of violating federal antitrust laws and were permitted to keep their theatres. However, the court struck down many of the abuses the studios had engaged in at the local theatre level, such as price-fixing and other questionable trade practices. Even though the lower court's decision gave both sides "victories," the government immediately announced that it would appeal to the U.S. Supreme Court, while the studios announced that they would counter-appeal.

## CHAPTER SIX

THE FINLEY ANTITRUST CASE against MCA went to trial on January 29, 1946, in Los Angeles. F. Filmore Jaffe, Finley's attorney, set out to prove arguments that MCA's exclusive arrangement with Wayne Dailard in San Diego had constituted a monopoly, thus creating an illegal restraint of trade against Finley and his business. Jaffe produced evidence of alleged unethical practices employed by MCA, such as forcing other talent agencies bringing dance bands into the San Diego area to split commissions with MCA.

Jaffe had obtained an internal memorandum from the Frederick Brothers Agency that gave evidence of coercion and intimidation by MCA. The memo discussed the dilemma of Jerry Jones, the owner of the Rainbow Rendezvous, a dance hall in Salt Lake City, Utah. A top official with Frederick Brothers wrote that Jones had "said on the phone that he is forced to take nothing but MCA attractions and cannot possibly do business with us in the future unless MCA cannot give him a suitable attraction for his open date. During his recent trip here, [MCA vice-president] Larry Barnett, [MCA agent] Eames Bishop, and Taft Schreiber said it would have to be this way or else they would give T. R. Covey [the owner of the Cocoanut Grove Ballroom, also of Salt Lake City] two name attractions a week, and if such happens Jerry said

it would murder his business, as his spot is small and he counts on a steady nightly trade."

MCA's lawyers, Frank P. Doherty and Harold F. Collins, in response to Finley's charges that the MCA enterprise constituted a monopoly operating in an unethical manner, insisted: "The evidence affirmatively shows without conflict that MCA does not 'control' any bands. It is clear that MCA at all times acts only as the employment agent of the bands which it represents, and that the bandleader with whom contracts are made is the principal and acts on behalf of himself and the musicians who comprise the band, all under rules and regulations zealously kept and made effective by the American Federation of Musicians. MCA is not the principal, only the agent. . . . Any conspiracy which is claimed or asserted was solely that existing between Bishop, Barnett, and [Pacific Square operator Wayne] Dailard. . . . The Los Angeles office of MCA and not any other office in any other state is alleged or proved to have been involved in the alleged conspiracy."

Jules Stein's deposition dissected MCA's corporate empire, which at the time included the band-booking agency, Music Corporation of America; the motion picture actors' agency, MCA Artists, Ltd.; the radio performers' agency, Management Corporation of America; and the California Movie Company.

Stein\* explained that his East Coast talent was handled by MCA's New York offices; the Chicago bureau was in charge of the Midwest; and the Los Angeles and San Francisco offices shared MCA's West Coast operations. "Cleveland handles Ohio and perhaps part of Michigan," he said, "and they interlock with some in Chicago and New York. I think they go as far as Pittsburgh in the East. Dallas handles Texas and goes as far up as Kansas City. There is no sharp demarcation."

After ten days of trial arguments and testimonies, the Finley antitrust case against MCA went to the jury. After only a few hours of deliberation, the jury returned to the courtroom and announced in favor of Finley, awarding him \$55,500 in damages from MCA. Later, U.S. District Judge Paul J. McCormick, who presided over the trial and had earlier dismissed the charges against Stein, awarded Finley another \$9,092 for costs and fees. In his final statement to the court, Judge McCormick called MCA "the Octopus... with tentacles reaching out to all phases and grasping everything in show business."

Judge McCormick added that he had found "that there is ample and

<sup>\*</sup>In 1945, Jules Stein and his family purchased a two-story, semicircular Mediterranean villa, built on two acres on Angelo Drive in Beverly Hills. The mansion had been designed by Wallace Neff, a famous architect. Stein's neighbor across the street was Greta Garbo.

substantial evidence to support and sustain the implied finding of the jury that the defendants have conspired to restrain interstate commerce and to monopolize interstate commerce in that portion of the business of musical entertainment involving bands, orchestras, and attractions furnishing dance music at places of public entertainment..."

Jules Stein was incensed. "The jury, by this decision, has in effect censured the efforts of our company in behalf of our clients in seeking the best places of employment for the maximum wages consistent with the furtherance of the artists' careers," he told the press.

Within a month of the verdict, rumors of a major MCA shakeup circulated on both coasts. Sonny Werblin, the New York MCA chief and second in command to Stein, and M. B. Lipsey, the head of the Chicago office, flew to Palm Springs for a series of meetings with their boss. Most talk centered on Stein, who was thought to be considering stepping down as president in favor of Werblin.

But after the first week of meetings, the only changes made were the reshuffling of several second-level personnel and the elevation of Larry Barnett as "coordinator of all orchestra and recording activities for MCA." During the second week of meetings, Leland Hayward, Taft Schreiber, and Lew Wasserman were summoned. Despite MCA's statements that "no other changes would be made," the Hollywood trade publications continued to speculate that Stein was stepping down.

After meetings during the second week in March, MCA continued playing its game with the press, still insisting that no major changes would be made. But in reality changes were being planned. Stein was not stepping down, he was stepping up—to become MCA's chairman of the board. And the new president was not Werblin—who had suffered a near-fatal heart attack a few years earlier—or even Taft Schreiber. Instead, Stein said he was going to name vice-president Lew Wasserman as MCA's new president and chief executive officer, saying of his thirty-three-year-old protégé, "Lew was the student who surpassed the teacher."

As of April 26, 1946—Stein's fiftieth birthday—Stein slowly eased himself out as the key day-to-day operator of MCA, and Wasserman began to assume the mantle of one of the most powerful executives in the entertainment business. The move became official on December 16, 1946, at MCA's annual meeting. Wasserman's formal promotion came ten years to the day after he joined MCA.

The tall, lanky, soft-spoken Wasserman presented a sharp contrast to the usual image of the glitzy, high-pressure Hollywood agent. He always wore the clothes that he made MCA's trademark: plain dark suits, white shirts, and skinny dark ties. Competitors called MCA's agents "the black-suited Mafia." Like Stein, Wasserman fanatically shunned all forms of personal publicity. With the moral support of his wife—Edith Beckerman, whom he had married in 1936—he worked seven days a week, sixteen hours a day in his plush Beverly Hills office. Impatient with inefficiency, cold and brusque when angry, he was a ruthless, hard-nosed negotiator. A self-admitted high-stakes gambler, he was considered an incisive thinker who made decisions quickly.

Wasserman preferred to dispense with paperwork, rarely writing memoranda or keeping personal records. Without any advanced education, he had made himself an expert at finance, taxes, law—and especially sales. For all of his business ferocity, even his most critical Hollywood rivals considered him a smooth, charming, likable, and honest man who had a natural tendency to understate his own considerable accomplishments. Every project he touched seemed to become successful—though shrouded in secrecy.



THE JUSTICE DEPARTMENT had watched the Finley case carefully, as part of its continuing scrutiny of the monopolistic practices within the entertainment industry. At the same time, it was doing battle on another front with James Petrillo and the AFM.

In 1946, the U.S. Congress passed the Lea Act, best known as the "Anti-Petrillo Act," which prohibited the AFM from forcing broadcasters to hire more musicians than they needed.\* Soon after the law was passed, the AFM contested its legality in Chicago's U.S. District Court, which ruled it unconstitutional. In their appeal to the U.S. Supreme Court, government attorneys stated that the Lea Act "represents the deliberate judgment of Congress as to the existence of an evil affecting the broadcasting system of the nation and as to the best method of remedying such evil." The Supreme Court overturned the lower-court decision, stating that the Lea Act was indeed constitutional.

As part of its antitrust investigation, Justice Department attorneys interviewed Charles Wick, a top executive of the William Morris

<sup>\*</sup>The Lea Act was passed by Congress in 1946 after Petrillo attempted to compel radio station WAAF in Chicago to employ three persons not needed.

Agency, the first band-booking agency on the West Coast. Wick had at one time been a musician with his own orchestra, as well as a composer and arranger. For a short period, he was the administrator for Tommy Dorsey's orchestra.

Wick alleged that aside from MCA's talent agency and similar business ventures, "They also sell liquor to hotels to whom they sell orchestras." He estimated that MCA's bands grossed \$15 million a year and that MCA's cut was at least 12.5 percent of that, or \$1.8 million. Wick told the attorneys that at least three bandleaders—Tommy Dorsey, Harry James, and Kay Kyser—each grossed a million dollars annually. He also admitted splitting commissions with MCA when singer Vaughn Monroe played at the Pacific Square in San Diego. Monroe had since left William Morris and joined MCA.

"Do you know of any affiliation between MCA and the American Federation of Musicians?" one of the antitrust lawyers asked.

"That is very explosive ground. I know of none. I've heard of rumors. I don't say I entertain that view."

"Wherein would there be some connection between MCA and AFM, if there's any?"

"Well, this is only academic. If I may not refer to MCA, I could say that the likely affiliation between a union and an agency of this sort, if such existed, and which I have no reason to believe exists, would come whereby various strict union rules governing the coordination of the agency and the artists in relation to the union and the various entertainment purchasers might be released or overlooked or specially construed in a fairly moot situation in favor of the agency."

Later, when Wick was asked why MCA was so successful, he replied, "The main factor of MCA's dominance is the fact that they can force a particular [dance hall operator] to accept an MCA orchestra, because MCA wants to play the band at that particular point at that particular date because of a matter of good routing for their orchestra."

The government attorney asked, "How is MCA able to force them to do that? What pressures can it bring?" Wick then told a story about Gordon Coffey, a dance hall operator in several California towns. "[Let's say] he [Coffey] wants one of our bands and MCA wants to knock it out. If he doesn't take the band they [MCA] want, they can say 'We'll give our bands to someone else in your territory and you will get none, and that'll break you.' They can do that. That is another form of coercion: the law of supply and demand. . . ."

"Do you think that these same efforts of pressure are exerted in other parts of the United States?"

"Very definitely."

"Your organization runs into it frequently?"

"Yes. It is generally known in the field, even by musicians. They can also pressure hotels and nightclubs . . . in the same manner to take the bands they want to give you. They say, 'If we give you Mr. X box-office, we want you to take Joe A and Joe B no-draw. . . ."

"What pressures could MCA bring upon its own bands to, more or less, make them play where they wanted them to?"

"Well, if their band is of top quality, they usually, in their personal relationships, act as diplomatically as possible, and therefore, with a top band, they would not bring any kind of direct pressure, because a top band is not solicitous of their good favor. However, a band that is not top, they can bring all kinds of pressure just, more or less, by intimidation, because they can tell him that only so-and-so may be available to his group in the way of bookings. . . . "

"Do you know of any instances where MCA had undertaken to do some pirating [stealing of clients]?"

"Oh, yes. Although I will say, in all fairness, that all agencies sandbag their opponents, although personally I will say—not professionally—that MCA's business tactics and scruples are highly questionable. That is a personal view, and I was very surprised when I came [to William Morris at] the amount of integrity and ethics they try to maintain in the face of pretty stiff competition."

A few days after the Wick interview, Holmes Baldridge, special assistant to the U.S. attorney general, sent a memorandum to Fred Weller, special attorney for the department's antitrust office in Los Angeles. Baldridge concluded that MCA's activities—in its representation of actors, entertainers, and musicians, along with its subsidiary holdings—were nationwide rather than confined to the West Coast area. He added that most of MCA's name bands broadcasted over networks covering much of the United States, and that "this fact should strengthen the commerce phase of the case [against MCA]."

In his response, dated March 22, 1946, Weller replied: "If the facts developed are consistent with our present information, this looks like a good case. We are anxious to expedite it as much as possible."

Weller and government antitrust lawyer Herman Bennett tried once more to intiate a full-scale federal investigation of MCA. In the detailed memorandum, they outlined their case against the talent agency, again requesting an FBI investigation. Using the Finley case and the conduct of its original defendants—Jules Stein, Larry Barnett, and Eames Bishop—as evidence of MCA's antitrust violations, Weller and Bennett wrote: "It is believed that an FBI investigation will disclose that other individuals, affiliates of MCA, and other corporations are implicated in the conspiracy and that such investigation will also disclose facts that warrant a grand jury investigation."

Specifically, they charged that MCA had "exerted pressure" on those with whom it did business for the following purposes:

- 1. It has compelled promoters to agree to take only MCA bands or that a great percentage of bands used by them be MCA bands.
- 2. In setting up their schedules, promoters have been compelled to take bands which they did not want.
- 3. Promoters have been prevented from using bands under contract with other agencies.
- 4. Other booking agencies have been forced to split commissions with MCA on receipts of bands under contract with other agencies.
- 5. MCA has compelled promoters against their will to accept an MCA band merely because MCA wanted to play the band at a particular time and place. This is sometimes done even when the promoter has other commitments with other agencies or other bands.
- 6. Bands have been pressured to play at certain places.
- 7. It has compelled bands to refuse to play at certain places and for certain promoters.

Weller and Bennett continued: "For a thoroughly complete investigation for the purpose of uncovering the entire MCA setup with all of its affiliates, interests and tentacles, its financial setup and its control of other phases of the entertainment industry, it would seem necessary to have a grand jury investigation in order that the books, records, correspondence, and office memoranda of MCA could be called for evidence.

"For the time being, a Bureau investigation covering certain cities and more or less confined to band-booking agencies, bandleaders, hotels, nightclubs and the larger ballroom operations should disclose substantial evidence of the illegal practices of MCA and a monopoly and restraint of trade in 'name' and 'semi-name' bands."

During the spring of 1946, the antitrust office in Los Angeles formally requested that the U.S. attorney general order an FBI investigation of the corporation. Specifically requested were probes of the relationship between MCA and the AFM and their sweetheart relationship; MCA's takeovers of the CBS Artists Bureau and the Hayward-Deverich Agency; and the subsequent takeovers of such businesses as the Mike Falk Agency and the William Meiklejohn Agency. Further,

the FBI was asked to investigate the practice of commission-splitting and a variety of devices of coercion and intimidation against bands and dance halls utilized by MCA.

On June 24, U.S. District Court Judge Paul J. McCormick, who had presided over the *Finley* v. MCA case, upheld the final verdict but overturned the jury's decision on the damages awarded to Finley, indicating that, upon reconsideration, "the jury's fixation of the damages for the inquiry to the plaintiffs by reason of defendants' wrongdoing does not conform to the yardstick of certainty required by the decisions of the courts of the United States."

Ironically, just the previous month, Larry Finley—who ended up winning only his attorney's fees—had booked his first MCA band, Tiny Hill and his orchestra, into Mission Beach for a two-week stand. All communications and contracts between Finley and MCA were handled by mail, and not a word about the booking was breathed to Pacific Square, which, by then, had been sold by Dailard.

The court's equivocation in the Finley case quickly put a damper on the whole MCA investigation in Washington. In the Justice Department's rather condescending August 12 reply to the Los Angeles office's request for the FBI investigation, George B. Haddock, special assistant to the U.S. attorney general, wrote: "The attorney general has expressed a personal interest in this investigation. . . . [But] at most it would appear that MCA is monopolizing the business of placing name bands, or, stated otherwise, the business of supplying name band entertainment. . . . The trouble here is the fact that bands are not fungible, and it would be an extremely difficult thing to draw any distinction between name bands and non-name bands on the basis of merit of the entertainment they produce. The non-name band of today becomes the name band of tomorrow. Usually, where we attempt to charge monopolization, we have involved a commodity capable of specific definition on some basis other than the price which is being paid for it as of the time the complaint is filed."

Haddock concluded his letter by telling his West Coast colleagues that before the Justice Department "can proceed intelligently with further investigation, it will be necessary to outline with greater clarity the theory upon which the investigation is based."

The Los Angeles Antitrust Division was buoyed by a four-part story about MCA that appeared in the Saturday Evening Post in August 1946. Entitled "Star-Spangled Octopus," it was written by David G. Wittels.

According to a former top official at MCA, the agency had been

approached by Wittels early in his investigation. He gave its executives the option of cooperating and allowing their version of the facts to be known—or not cooperating and letting the chips fall where they may. "At first," the MCA executive said, "the decision was made to give him the runaround, send him to the PR department and the general counsel's office, that type of thing. Then, Stein decided to open up to the *Post*. As things turned out, we probably came out of it a lot better. The story probably did us a lot of good. . . . The only bad thing was that people got wise to our operations and saw how we worked."

Much of Wittels's information appeared to come from the reports prepared by the Justice Department's Antitrust Division, except that Wittels was able to go further with detail and piece together the story of Frank Sinatra's experience with MCA.

Sinatra had originally been a vocalist for Harry James, who became an MCA client. Later, Sinatra went with Tommy Dorsey, who was also under contract with MCA. But, although Sinatra was a big hit with both James and Dorsey, MCA never offered him a personal contract. Finally, in 1942, Sinatra left Dorsey and went out on his own.\* However, there was a price for his freedom. Sinatra had to give one-third of his future earnings to Dorsey—and another ten percent to Dorsey's manager.

However, Mafia leader "Lucky" Luciano wrote in his memoirs that he was instrumental in the rise of Sinatra's career. "When the time came when some dough was needed to put Frank across with the public," Luciano wrote, "the guys put up. . . . He needed publicity, clothes, different kinds of special music things, and they all cost quite a bit of money—I think it was about fifty or sixty grand. I okayed the money and it came out of the fund, even though some guys put up a little extra on a personal basis. It all helped him become a big star and he was just showin' his appreciation by comin' down to Havana to say hello to me." Sinatra has denied any contact other than meeting Luciano once.

The following year, Sinatra was signed by the General Amusement Corporation and became a huge success. At that point, MCA approached Sinatra, telling him that MCA could do a better job for him than GAC. Sinatra tried to get out of his contract with GAC, but GAC refused. The singer then pretended that he had a bad throat and

<sup>\*</sup>Sinatra was allegedly helped in his departure from Dorsey's band by New Jersey mobster Willie Moretti, a neighbor of Sinatra's. According to published reports, Moretti supposedly made Dorsey an offer he could not refuse, forcing the bandleader to cancel the contract at gunpoint. Sinatra has denied this story, and Moretti was murdered in a gangland-style slaying in 1951.

couldn't sing. The MCA agent went to GAC and told its executives that Sinatra was unhappy with them, and that MCA was going to start booking Sinatra for no commission. Still, GAC refused to relent.

"Above all, there was the matter of the 33½ percent to Dorsey, ten percent to Dorsey's manager, and now ten percent to the booking agents," Wittels wrote. "That made a total of 53½ percent before taxes—not counting what he [Sinatra] was paying a press agent, writers, and Alex Stordahl, a crack arranger who had left Dorsey to follow him. The money was rolling in beyond his wildest dreams, but he was practically broke."

Sinatra then threatened to go to his union, the American Guild of Variety Artists (AGVA), the vaudeville union. Under union rules, if a performer can show that his agent is not getting him work, he can demand his release from the agency. GAC's dilemma was clear: if it battled Sinatra in front of the AVGA and lost, they would lose Sinatra and a lot of money. If GAC won, Sinatra might still refuse to perform, and GAC would still lose.

MCA's squeeze of GAC worked.

Screaming "foul," GAC finally capitulated and gave Sinatra to MCA—with the proviso that GAC would receive a cut of Sinatra's future business. "In return for relinquishing its client, General Amusement gets half of MCA's ten-percent commissions on Sinatra until November 30, 1948, the expiration date of the old contract. If Sinatra signs again with MCA after that, General Amusement is to get one quarter of MCA's commissions as long as he remains an MCA client."

However, the Antitrust Division's investigation of MCA could not be saved by the Wittels series. Once again, the case remained dormant.

Meantime, earlier that summer, Tom C. Clark, who had become U.S. attorney general,\* gave a speech before the Chicago Bar Association, announcing that the United States was the target of "a sinister and deep-seated plot on the part of the communists, ideologists, and a small group of radicals." Adding that he had received evidence of a conspiracy to take over labor unions, to provoke workers to strike, and to challenge civil authorities, he attacked those lawyers who offered their legal services to those involved.

Clark's comments signaled a call to arms, one which would deeply affect Hollywood in the years to come.

<sup>\*</sup>In 1949, Clark was appointed as an associate Supreme Court justice by President Harry Truman.



THE SCREEN ACTORS GUILD (SAG) was founded on June 30, 1933, as a result of demands by the motion picture studios the previous March that all contract and free-lance actors accept a fifty-percent and twenty-percent cut, respectively, in wages. In response, the actors/organizers held a series of secret meetings in secluded locations. Such safeguards were taken because previous attempts to form an actors' union were received with actor blacklists drawn up by studio executives.

The first SAG board of directors was composed of Leon Ames, Clay Clement, James Gleason, Lucille Gleason, Boris Karloff, Claude King, Noel Madison, Ralph Morgan, Alan Mowbray, Bradley Page, Ivan Simpson, Alden Gay Thomson, Richard Tucker, Arthur Vinton, and Morgan Wallace. Ralph Morgan was selected as SAG's first president; Kenneth Thomson—who was later accused of being "a friend of the mob" but was credited with having a hand in driving Bioff out of Hollywood—was appointed its executive secretary; and Laurence Beilenson, the attorney for the Screen Writers Guild—which had also been created in 1933—became its general counsel.

Within months of SAG's creation, other actors joined, including Edward Arnold, Ralph Bellamy, James Cagney, Eddie Cantor, Gary Cooper, Miriam Hopkins, Groucho Marx, Robert Montgomery, Paul Muni, George Raft, and Spencer Tracy. By the end of its first year, SAG had nearly 2,000 members.

In the midst of its efforts for recognition from the studios, SAG became a member of the American Federation of Labor in 1935. Two years later, on May 7, 1937, a mass information meeting of actors was held at the Hollywood Legion Stadium; earlier, ninety-eight percent of the membership voted to strike if the studios failed to negotiate a contract with the new union. Dramatically, as in a scene from a movie, Robert Montgomery, who had succeeded Eddie Cantor as SAG president in 1935, walked up to the podium and read a letter from the studios to the large crowd. "We wish to express ourselves as being in favor of the Guild shop. . . . We expect to have contracts drawn between the Screen Actors Guild and the studios before the expiration of this week." The letter was signed by Louis B. Mayer and Joseph M. Schenck. Montgomery declared that the moment was "the victory of an ideal."

From the outset, SAG fought hard for its membership, particularly those who had not achieved star status. In its first contract, which was signed by thirteen producers, minimum-pay rates were set and continuous employment guaranteed, as well as the establishment of an arbitration clause. Before this contract, some actors were making very little money with no benefits, amidst slave-like working conditions. If these lower-paid actors complained about their long hours of work and the cavalier treatment of them by the studios, they could easily find themselves back out on the streets, ending their dreams of Hollywood stardom.

The Guild was not a typical labor union. It was run at the top by mostly wealthy, established stars—who were largely politically conservative—while the majority of the rank and file was comprised of struggling or out-of-work actors, who were generally far more liberal.

Ronald Reagan joined the Screen Actors Guild soon after receiving his first movie contract with Warner Brothers in 1937. Although he was then supposedly a moderate, he had come to SAG at first only with reluctance. "I must admit," Reagan said, "I was not sold on the idea right away. I was doing all right for myself; a union seemed unnecessary. It was Helen Broderick, that fine actress, who nailed me in a corner of the commissary one day at Warners, after I'd made a crack about having to join a union, and gave me an hour's lecture on the facts of life. After that I turned really eager and I have considered myself a rabid union man ever since."

Born in Tampico, Illinois, on February 6, 1911, Reagan was the son

of Jack Reagan, a hard-drinking, first-generation Irishman, and Nelle Reagan, a kind and sensitive, well-read woman of Scotch and English descent. In 1920, the Reagan family moved to Dixon, ninety miles from Chicago. A football star in high school, Reagan received his undergraduate degree from Eureka College, a Christian church school in southern Illinois. An athlete and an actor in school plays, Reagan—nicknamed "Dutch"—began working as a radio announcer with station WOC in Davenport, Iowa, and then later with WHO, a 50,000-watt station in Des Moines, Iowa, as a sports announcer. On Saturday nights, Reagan sometimes hosted WHO's popular barn dance, which featured dance bands and other entertainment. In his free time, Reagan frequented Si's Moonlight Inn and, on occasion, "he visited the nearby Club Belvedere, which had a casino,\* [but Reagan] didn't gamble."<sup>2</sup>

Reagan's entry into the film industry came quite innocently. One night Reagan met Joy Hodges, a former WHO employee who had gone to Hollywood and started a singing career with Jimmy Grier's orchestra. She encouraged him to look her up in Los Angeles when he went on spring training with the Chicago Cubs. Later, she introduced him to talent agent William Meiklejohn, who thought he had discovered another Robert Taylor and set up a screen test for him at Warner Brothers.

Warners hired him at two hundred dollars a week. In his first film, Love Is on the Air, he played Andy McLeod, a radio announcer who was trying to expose the mob's control of local politicians.

Reagan's executive producer at Warners was Bryan Foy, a former Democratic ward politician from Chicago. Known to have business and social contacts with Chicago Mafia figures, including Johnny Roselli and Willie Bioff, Foy produced the first one-hundred-percent-talking

<sup>\*</sup>According to an Iowa law-enforcement official, the gambling operations of the Club Belvedere were conducted "by the Chicago Mafia. . . . The man who ran things for the Capone people in this state at the time was [Charles] 'Cherry Nose' Gioe [later convicted in the Bioff/Browne/Schenck scandal]." According to a government report, Gioe, a close friend of Sidney Korshak, had interests in hotels and restaurants in the Midwest. In 1928, he became the Chicago mob's representative in Iowa, "bootlegging liquor into Iowa from Wisconsin," according to the report. After Prohibition, Gioe remained in Iowa until 1939 to oversee the Chicago underworld's gambling interests at such places as the Club Belvedere. There is no evidence that Reagan and Gioe were acquainted, although it was well known that Chicago underworld figures operating in Iowa "had a special interest in college athletes and sports writers," according to a Chicago lawenforcement official.

Among those writers approached was crime reporter Clark Mollenhoff, who worked for Iowa's Des Moines Register and later won a Pulitzer Prize. Mollenhoff said that he was approached by one man, who he did not know was a Mafia figure, who "offered to pick up the tab for me for a weekend 'you won't forget' in St. Louis or Chicago. I am sure now that I never would have forgotten that weekend; I wouldn't have been permitted to do so. But at the time it seemed like a generous offer made by a nice fellow who was misunderstood by the Chicago police."

movie, Warners' Lights of New York, in 1928 and later became known as the "King of the Bs," because of his money-making, second-rate movies. He was the eldest son of Eddie Foy and part of the family vaudeville act, the Seven Little Foys.\*

"I soon learned," Reagan said, "that I could go in to Brynie and tell him that I had been laid off, but couldn't take it at the moment because of all my expenses. He would pick up the phone, call a couple of his henchmen, and actually get a picture going on four or five days' notice —just to put me back on salary."4

Reagan starred in thirty-one movies between 1937 and 1943, and became known as "the Errol Flynn of the Bs." His most heralded roles were in Brother Rat in 1938, Dark Victory † in 1939, and Knute Rockne. All-American, portraying the tragic George Gipp, in 1940. With his role in the 1942 production of King's Row—playing a man whose legs have just been amputated and who exclaims, "Where's the rest of me?" -Reagan achieved a degree of star status.

During the first four years of his acting career, when his earnings rose from eight hundred dollars a month to \$1,650 a week, Reagan had been represented by William Meiklejohn. In 1940, MCA bought out Meiklejohn's agency and absorbed his clients—who included Reagan, Jane Wyman, and William Demarest. Meiklejohn then became head of MCA's studio talent department, and Lew Wasserman became Reagan's principal agent. Based on the success of King's Row in 1942, Wasserman renegotiated Reagan's contract with Warner Brothers, obtaining a deal that paid Reagan \$3,500 a week for seven years. The deal gave Reagan the distinction of being Wasserman's first "million-dollar client."

MCA executive Taft Schreiber explained that Reagan had possessed an unusual quality, which had endeared him to the MCA management team from the start. Unlike many other actors, Reagan accepted MCA's career guidance without a fuss. "He had only this one agency," Schreiber said. "This was it. It wasn't the agent's fault if things didn't go well. Most actors blamed their agents. He understood. He had a very sound grasp of the situation."5

Reagan spent most of his time during World War II serving his

<sup>\*</sup>Foy's younger brother, Eddie Foy, Jr., was featured in three of Reagan's movies: Going Places, Code of the Secret Service, and Murder in the Air.

<sup>†</sup>Dark Victory—a drama about a wealthy young woman who develops a brain tumor, goes blind, and then dies-was based on an unsuccessful Broadway play starring Tallulah Bankhead. Using her influence with Jack Warner, Bette Davis convinced him to allow her to star in the movie. The movie was beaten out for Best Picture by Gone With the Wind. Vivien Leigh won over Davis for Best Actress. In Dark Victory, Reagan plays Davis's young and charming but rarely sober friend.

military tour of duty stateside. Reagan explained, "Lew Wasserman of MCA reminded me of a war that was going on, of Hollywood stars like Jimmy Stewart who had already been drafted, and of my own reserve-officer status. He said, 'We don't know how much time you have—let's get what we can while we can.' "6 Because of bad eyesight—which disqualified him from combat—he was stationed at Fort Mason in San Francisco as a liaison officer before being transferred to Hollywood by the Army Air Corps to narrate military training films. He served as a lieutenant in the First Motion Picture Unit of the Army Air Corps, located at the nine-acre studio in Culver City once owned by producer Hal Roach and thus nicknamed "Fort Roach" and "The Culver City Commandos." His commander was Albert Paul Mantz, the famous movie stunt pilot who was later killed while performing. Other stars, like Alan Ladd, Clark Gable, Gig Young, and Van Heflin, joined Reagan in filming morale-boosting movies for the army.\*

On August 8, 1946, after Reagan returned from the service, Billy Wilkerson, the right-wing publisher of *The Hollywood Reporter*, who had admitted his working relationship with Willie Bioff, wrote an editorial, calling the American Veterans Committee, of which Reagan was a member, "fronters," a euphemism for communists. Reagan defended the AVC, saying, "At the recent AVC National Convention in Des Moines, Iowa, a tentative pink infiltration was met and dealt with in true democratic fashion. . . . Of course, to deny that there are some 'commies' aboard would be ridiculous as those guys inkle [sic] in just about every place."

The following week, an anonymous letter from "A Wounded Marine" was published in *The Hollywood Reporter* as a cheap-shot reply to Reagan. "I remember during the war how Reagan, as a Cutting Room Commando at Fort Roach, so bravely fought the war from the polished nightclub floors of Hollywood, while some of us wallowed in the blood and guts of a dark South Sea Island front. . . . I went to a couple of meetings of AVC and if that isn't loaded with Molotov vermin then Joe Stalin is getting ready to become a minister."

On August 22, actors/combat veterans Eddie Albert, Douglas Fairbanks, Jr., Melvyn Douglas, William Holden, and Congressional Medal of Honor winner Audie Murphy, among others, wrote in *The Hollywood Reporter*, "The attack on Ronald Reagan is an attack on all in

<sup>\*</sup>During the war, the 3,503 members of the Screen Actors Guild made 25,925 free appearances in support of the Allied war effort; 150 SAG members participated in front-line USO camp shows; and 1,574 Armed Forces Radio broadcasts were made by members. Aside from the work done by Reagan and his colleagues at Fort Roach, thirty-seven short films were distributed to 16,000 theatres.'

our community who served during the war in work for which their valuable motion picture training fitted them, work which had to be done at home."\*\*

In the midst of this fracas, the Screen Actors Guild held nominations for its executive board. Robert Montgomery, who had been SAG president from 1935 to 1938, was elected to replace outgoing president George Murphy, who had served since 1944. Ronald Reagan was nominated to serve as SAG's third vice-president.

Reagan had become increasingly involved in union politics through his first wife, actress Jane Wyman, who was a member of the SAG board and convinced its members to appoint him to a vacant alternate seat in 1941.†

Prior to his election as third vice-president of the SAG board, Reagan had been appointed as an alternate board member on two other occasions. In February 1946, he was named alternate to actor Rex Ingram, and the following month he became Boris Karloff's alternate.

Reagan has always maintained that he volunteered his services to SAG for totally unselfish motives. However, some of his critics, including some SAG board members, have charged that, under the surface, he viewed the Guild as a source of power and status. "Undoubtedly, Reagan's film career shows," one observer said, "that he went into politics only when he was washed up as an actor."

<sup>\*</sup>Wilkerson later apologized to Reagan.

<sup>†</sup>Reagan and the twenty-four-year-old Wyman had met in 1938 after being cast as sweethearts in the film Brother Rat. They were married two years later, on January 26, 1940. It was Reagan's first marriage and Wyman's second; she had earlier been married less than a year to a Los Angeles businessman. Hollywood gossip columnists—particularly Louella Parsons, who was from Reagan's hometown, and who had announced their engagement and held their wedding reception at her home—called their relationship "one of the great romances of the century." Hollywood hype aside, Reagan and Wyman starred together in three undistinguished movies in 1940: Brother Rat and a Baby, An Angel from Texas, and Tugboat Annie Sails Again, as Warner Brothers and Bryan Foy tried to cash in on their all-American couple.



THE HIGHLIGHT of Reagan's early years on the SAG board was his role in the power struggle between the 16,000-member International Alliance of State and Theatrical Employees (IATSE) and the Conference of Studio Unions (CSU).

Despite IATSE's claims that it had reformed itself from the days the union was controlled by the Mafia, the same seven members who had sat on its executive board during the Bioff-Browne reign remained in place—including its new New York-based international president, a forty-five-year-old Irish-American, Richard Walsh, who had been a vice-president under Browne. Consequently, there were numerous charges that the gangsterism within IATSE had not been removed, only replaced. The new IATSE response to such attacks was identical to Bioff and Browne's: that their critics were obviously communists. Asked about the situation in his union, Walsh replied, "That's a problem I don't talk about at all. . . . A good president never takes responsibility for anything."

A big, tough Nebraskan, Roy Brewer was appointed as the union's international representative in March 1945 and sent to Hollywood. Born in 1909 in Nebraska's Cairo Hall County, Brewer had attended Baptist College in Grand Island for one semester and studied law

through LaSalle Extension University. In 1926, he started working as a projectionist in a local theatre, and, the following year, was elected secretary of the Grand Island Central Labor Union, as well as vice-president of the Nebraska State Federation of Labor. In 1933, at twenty-three, he was elected president of the federation, a post he held until 1944. Briefly, in 1935, he worked with Tom C. Clark as a compliance officer under the National Recovery Administration—which worked in cooperation with the Justice Department when NRA codes were violated. While working in the Office of Labor Production of the War Production Board, he received his Hollywood assignment from IATSE.

Instead of trying to rid the union of its gangster image and all remnants of mob control, Brewer was obsessed with eliminating "the communist influence" within the union and the movie industry in general. "When Browne [and Bioff] went to jail," Brewer insisted, "that ended any connection with the mob in the IATSE." When pressed on his claim that the Mafia no longer existed in Hollywood, Brewer replied, "When Walsh was beginning to deal with these problems—he had an awful fight to save Hollywood and to convince the government, too, that he was not tainted with this, really—he went along with them [the Mafia], he did some things." Without elaborating, Brewer said, "Walsh had done a good job of cleaning up the mob. . . ."

Shifting his attention away from the problem of the Mafia's infiltration of his union, Brewer continued, "The truth is, [the communists] had this town in the palm of their hands; they were calling the shots.

... They had 360-some people who have been clearly and positively identified as dues-paying members of the Communist Party. We had other [information] that top stars, top directors, and top producers [were involved], and they were kicking in five percent of their salaries to the Communist Party's coffers. And they were making salaries of up to \$5,000 a week."

Along with several members of Hollywood's ultraconservative community—such as producer Walt Disney; actors Robert Taylor, Gary Cooper, and John Wayne; columnist Hedda Hopper; and Hollywood Teamsters leader Joe Tuohy—Roy Brewer was an officer of the Motion Picture Alliance for the Preservation of American Ideals, which was allied with the studios and heavily supported by newspaper mogul William Randolph Hearst. According to the group's "Statement of Principles," the Alliance was created because "in our special field of motion pictures, we resent the growing impression that this industry is

made up of, and dominated by, communists, radicals and crackpots. . . . We pledge to fight, with every means at our organized command, any effort of any group or individual to divert the loyalty of the screen from the free America that gave it birth."

Jeff Kibre, the leader of the IATSE progressives, had proven to be instrumental in the final downfall of Bioff, Browne, and Joe Schenck. However, after the Schenck confession and the Bioff-Browne convictions, Kibre, who had performed so heroically against the mob but was an admitted communist, was immediately blackballed by, among others, the studios, the Alliance, and IATSE. Unwelcome in the Hollywood community, Kibre eventually became an organizer for the United Auto Workers and later helped organize the fishermen's union.

Jeff Kibre's legacy of pro-union, anti-corruption militancy fell upon Herb Sorrell, a stocky former boxer with a flat nose. A former business agent with the Hollywood painters' union, Motion Picture Painters Local 644, Sorrell, in 1942, created the Conference of Studio Unions, "a coalition of five dissatisfied AFL locals (the Screen Cartoonists Guild, the Screen Office Employees Guild, Film Technicians Local 683, Machinists Local 1185, and Motion Picture Painters Local 644)." By 1945, CSU had added the carpenters' union and three other locals to the fold.<sup>3</sup>

Sorrell continued to denounce the ongoing corruption and Mafia influence within IATSE. As CSU became bigger and more popular, Brewer and the Alliance began to view him as a serious threat. Brewer attacked the CSU as "communist-dominated" and claimed Sorrell "followed the Communist Party line."

"We were fighting for our lives," said Brewer. "It's either the communists or us."

Using the red-baiting line, Brewer, IATSE, and the Motion Picture Alliance began waging a public relations war against CSU.

Although Sorrell had supported a variety of left-wing causes and received support from Harry Bridges, the militant president of the International Longshoremens and Warehousemens Union, he always denied throughout his career that he was or ever had been a communist. Unsophisticated in many ways, Sorrell was still viewed by most of the Hollywood community as being a dedicated and honest union man who operated a clean, honest, and democratic labor organization.

In March 1945, Sorrell called a CSU strike in Hollywood as a result of a jurisdictional dispute between CSU and IATSE over the representation of Hollywood's skilled, behind-the-camera workers. A three-

member arbitration committee from the AFL had supported the United Brotherhood of Carpenters, a member of the CSU coalition of trade unions, over IATSE's newly formed "set-erectors union." However, both IATSE and the motion picture studios had ignored this and other pro-CSU judgments by the AFL, even when its president, William Green, personally intervened.

"The relationship with the employers and [IATSE] has always been a close one," Brewer said. "We fought each other, but the point is that we lived in an industry, and we had the industry and its welfare in common. Our leaders have always understood that if they [the studios] didn't make money, we wouldn't get it. So you had to help them make money to get it."

On October 5, 1945, hundreds of CSU members picketing outside the gates of Warner Brothers were pelted by tear gas thrown by pro-IATSE goons and strikebreakers—who then used chains, rubber hoses, and blackjacks to attack the CSU partisans. While the fire department turned their hoses on them, knocking them off their feet, police officers moved in and beat the protesters with their clubs.<sup>5</sup>

In other incidents, Brewer and Hollywood Teamsters leader Joe Tuohy packed buses with union goons and sent them crashing through the CSU picket lines. Those strikers who interfered were pummeled by the legbreakers or arrested by the police, who clearly supported IATSE, the Teamsters, and the studios. Later, Tuohy—who had defied a membership vote not to cross the CSU picket lines—was hired by Joe Schenck as an "industrial relations director" for Schenck's National Theaters. In his new position, Tuohy made a four-hundred-dollar-aweek salary, a raise of \$275 a week over what he made as a union official.

Brewer admitted soliciting the Teamsters to break the CSU picket line. "Well, there was some Teamsters thing that was questionable," Brewer said, "but they were on our side and, as far as I was concerned, I was with fellows who were trade unionists. They were our allies."

Brewer continued, "We took the people through. I was there. We got the buses, we made the arrangements. The studios were reluctant, but they cooperated. We ordered our men to go in and make the sets. . . . We had a riotous condition." But, Brewer insisted, "We never engaged in any violence . . . the police were cooperating with us."

Reagan agreed with Brewer—that CSU was behind the violence. "[A] thousand strikers had massed at Warners," Reagan said. "Three

autos had been overturned, clubs, chains, bottles, bricks, and two-byfours were used freely. Now various homes of the IATSE members were bombed by night; other workers were ambushed and slugged."8

Father George H. Dunne, a Roman Catholic priest, had been commissioned by *Commonweal*, a liberal Catholic weekly, to make an investigation of the labor dispute in Hollywood. Dunne's report suggested a different story:

"The producers and the IATSE leadership have always reacted very sensitively when the Browne-Bioff era has been introduced into the discussion of Hollywood's labor disputes. They pretend it has nothing to do with the present. They would like the public to think that there has been a complete change since those days. . . . Actually little has changed.

"The men who made the deals with Browne and Bioff, and through them with the notorious Chicago gang, still run the industry. The same men who sat in council with Browne and Bioff as heads of the IATSE still run the union. . . .

"Browne and Bioff, thanks to the government, have gone. The other people are the same. Their methods are the same.

"The record is clear. It is a shameful record of collaboration between the producers and the leadership of IATSE, first to betray the interests of the IATSE members themselves and, in the later period, to destroy the opposition of democratic trade unionism represented by the Conference of Studio Organizations."

Reagan brushed Dunne and his report off, saying, "George Murphy [SAG president from 1944 to 1946] and I decided he must be the victim of a snow job." 10

Referring to his close ties to IATSE and the Teamsters during the strike, Dunne had also been critical in his report of Ronald Reagan, "whose Rover Boy activities helped mightily to confuse the issues."

In 1946, the National Labor Relations Board—which Brewer claimed "was completely under the control of the communists"—again ruled in favor of CSU over IATSE in another jurisdictional dispute over Hollywood decorators. IATSE and the studios ignored that decision as well. Again, CSU struck in July 1946 for three days in protest. The strike was effective—as SAG helped to negotiate a short-lived peace agreement called "The Treaty of Beverly Hills," which provided for a twenty-five—percent wage increase. But CSU's success was to be short-lived.

By September 1946, during the third and final CSU strike—which

began after Walt Disney red-baited his cartoonists, who were also CSU members—the studios turned the work stoppage into a lock-out of nearly all of the CSU membership, especially the carpenters and the painters, most of whom would later be blacklisted. After initially remaining neutral in the CSU strike, the SAG membership, persuaded by Montgomery, Murphy, and Reagan, voted to cross the CSU picket lines.

In his condemnation of CSU, Reagan said, "What the communists wanted to do in terms of the CSU strike was to shut down the industry, and when everybody was angry and dissatisfied with their unions for their failures, the communists would propose one big union for Hollywood..."

Reagan said that in the midst of the final CSU strike, the SAG leadership was, on occasion, protected by IATSE members. Reagan even hired his own armed bodyguard and carried a .32-caliber Smith & Wesson pistol as he crossed the CSU picket line on his way to work at Warner Brothers. He claimed that he had received an anonymous telephone call threatening that "a squad was ready to take care of me and fix my face so that I'd never work in pictures again." 12

He has since said and resaid that "a handful of Teamsters" protected him from bodily harm when SAG and IATSE were engaged in pitched combat with the "communists." He never has given any further details about the incident.

Recalling the violence in the IATSE-CSU dispute, Reagan said, "None of us yet believed that what a few anonymous people wanted was exactly what was happening in Hollywood—a state of chaos. . . . Pat Casey, the producers' labor negotiator, said the situation was 'explosive.' "13

Casey, who had been working to settle labor disputes with the Motion Picture Producers and Distributors Association, had been directly involved in the IATSE-CSU dispute, protecting the interests of the studios. Supporting the IATSE-SAG faction because of its long-term ties with MPPDA, Casey remained in the background of the dispute. Among Casey's employees had been Johnny Roselli, who previously served as an "undercover agent" with the firm.

Was the Mafia in any way involved in the Hollywood violence? Academy Award-winning producer Irving Allen, who had no sympathy for the communists, said, "When there was a labor problem in the studios—and they were always coming up then—the studios would go to Sidney Korshak [a long-time Roselli associate] and hire him as their

lawyer. And he was always able to solve them. He was very good. He was able to solve . . . most of the problems in this town.\* And, from my point of view, he earned his fee."15

When asked whether Korshak was involved in the studios' and IATSE's war with CSU, Brewer was less than direct: "He didn't have much to do with it. . . . I don't know what he did, if he did anything. He may have appeared, but he wasn't a major factor. Maybe I did know him, but I can't remember everybody. I don't want to take anything from him or give him anything. He may be very well informed . . . but I don't know him." 16

On March 10, 1947, the Screen Actors Guild selected Ronald Reagan to complete the unfinished term of Robert Montgomery, who, among other board members, had to resign as president because he was also a film producer and, thus, according to SAG's by-laws, not permitted to hold office in the Guild.

According to the SAG board minutes of that March 10 meeting: "Four resignations from members of the board of directors were presented: Robert Montgomery, president; Franchot Tone, 1st vice-president; Dick Powell, 2nd vice-president; and James Cagney. These letters of resignation explained that each of the actors now has a financial interest in the production of the pictures in which they appear, and that while their primary interest will always be that of actors, they do not feel that they should hold office in the Guild while their present status in the industry continues, particularly in view of the fact that the Guild will soon be going into negotiations for its new contract.

"At this point, John Garfield, Harpo Marx, and Dennis O'Keefe stated that they were in approximately the same position as the abovenamed officers, and, therefore, each of them offered his resignation as of this date and left the meeting."

That same month, a U.S. House Special Subcommittee on Labor

<sup>\*</sup>At the time, the Los Angeles-based Korshak was heavily involved with labor unions, either defending them or buying them off, depending on who was paying his fee. In 1946, he was retained by Joel Goldblatt, president of a chain of department stores in Chicago, who had become the target of extortion demands in return for labor peace. "Mr. Korshak acted as an intermediary between Mr. Goldblatt and the union officials," The New York Times reported, "resolving the company's labor difficulties and relieving Mr. Goldblatt of the need to be personally involved in payoffs."

By 1947, Korshak had started representing several other large Chicago companies and manufacturers, including Spiegel, Inc., the mail-order house. However, most of Korshak's time was spent helping these companies avoid legitimate union organizing.

Among Korshak's clients was the vice-president of the First National Bank of Chicago, Walter Heymann—who was also Goldblatt's banker. Korshak helped First National and other banks with their labor problems. Heymann later became a member of MCA's board of directors.

began to investigate the IATSE-CSU situation. However, Pennsylvania Republican Carroll D. Kearns,\* who chaired the subcommittee, made a deal with IATSE and the studios before the hearings began in which no testimony would be heard about charges of the Mafia's influence on IATSE. According to Father Dunne's report in *Commonweal*, "He [Kearns] was visibly pained by any remark, however indirect, that called into question their [IATSE's and the studios'] sincerity, integrity, and good faith. He seemed to regard these men who for years connived with the filthiest elements of the underworld as paragons of virtue." 17

Just before Kearns arrived in Hollywood, Sorrell was kidnapped and beaten by three men—one of whom was wearing a police officer's uniform. The battered Sorrell was then dropped in the desert.

At the same time, Brewer and an array of politicians and studio executives prompted the House Un-American Activities Committee hearings investigating the film industry. The first round of HUAC hearings began that October, and the Brewer partisans hoped to destroy the CSU and the left-wing artists who supported it once and for all. Chaired by J. Parnell Thomas, a New Jersey Republican—and with Representative Richard M. Nixon of California on the panel—HUAC subpoenaed forty-one witnesses, nineteen of whom were considered "unfriendly" and unwilling to testify. Thirteen of "The Nineteen" were Jewish, prompting charges that the investigation had anti-Semitic overtones.

Among the friendly witnesses who testified were SAG president Reagan, former SAG presidents Montgomery and Murphy, SAG board member Robert Taylor, and Roy Brewer. Reagan told the committee, "There has been a small clique within the Screen Actors Guild which has consistently opposed the policies of the Guild Board and officers of the Guild, as evidenced by votes on various issues. That small clique referred to has been suspected of more or less following the tactics we associate with the Communist Party." At the end of his testimony, however, Reagan upheld the rights of others to free speech and their participation in the electoral process. "I detest, I abhor their [the Communist Party's] philosophy, but . . . ," Reagan said, "I never as a citizen want to see our country become urged, by either fear or resentment of this group, that we ever compromise with any of our democratic principles through that fear or resentment [sic]."

On November 24 and 25, 1947, motion picture executives met at the Waldorf-Astoria Hotel in New York to decide how the studios were

<sup>\*</sup>Representative Kearns, a musician and a music teacher, had been an active member of the Petrillo-led American Federation of Musicians.

going to deal with communists in the film industry and, in particular, those who defied HUAC. The executives decided to sacrifice ten Hollywood artists-eight writers and two directors who had been charged with contempt of Congress by the committee. The Hollywood blacklist had been born.

"The producers, meeting en masse in New York, put out what was called the 'Waldorf Declaration,'" Reagan said in his defense of the action. "They agreed none of them would knowingly employ communists or those who refused to answer questions about their affiliations. The communists were among those who reacted in Hollywood by distorting any facts they got, claiming they were victims of a 'blacklist' —when they were actually working members of a conspiracy directed by Soviet Russia against the United States. In war, that is treason and the name for such is a traitor; in peace, it is apparently martyr. It is easy to call oneself a 'political party' and hide other motives behind it: the Mafia can do it, so can a Chicago mob of gangsters. My own test for the time when the communists may call themselves a legitimate political party is that time when, in the USSR, an effective anti-communist political party wins an election. At that time, I shall withdraw my objections to labeling communists 'political.' "18

Consequently, before the Kearns subcommittee—which had surprisingly criticized IATSE's close association with the studios—and HUAC had adjourned their hearings, Herb Sorrell and the CSU were fired from their jobs. The CSU simply dematerialized. The Hollywood Ten were convicted of contempt of Congress and imprisoned, leaving Brewer, IATSE, and their allies with a closed shop, in firm control of Hollywood.\*

The battle to rid Hollywood of all suspected communists was the bond that continued to cement the alliance between the Reagan-led SAG and the Brewer-controlled IATSE, even after the CSU had been purged. During these postwar years, Reagan became a close friend and associate of Brewer-who became the keeper of the Hollywood blacklist and continued to turn his back on the Mafia's involvement in the film industry.

HUAC returned to Hollywood in March 1951. Forty-five "unfriendly witnesses" were immediately subpoenaed, as the committee sought to force those testifying to name names of those they knew or thought to be communists.

<sup>\*</sup>Ironically, HUAC chairman J. Parnell Thomas was later indicted and convicted for taking kickbacks, and sent to Danbury Penitentiary-while two members of the Hollywood Ten, Lester Cole and Ring Lardner, Jr., were imprisoned there.

During these hearings, thirty members of the Hollywood community—in desperate, and often unsuccessful, attempts to save their jobs—named nearly three hundred of their colleagues as members or former members of the Communist Party. With communism appearing to be rampant in the film industry, the studios panicked and began cranking out anti-communist movies—which mostly contained old gangster movie plots, except that the gangsters were now replaced by communists who machine-gunned patriotic Americans and then sped off in fast cars. Two movies, Richard Widmark's Pickup on South Street and George Raft's A Bullet for Joey, actually portrayed the Mafia teaming up with the police to fight zombie-like communists.

Arthur Miller had earlier been approached by director Elia Kazan to write a movie about the Mafia on the waterfront and had actually drafted a screenplay, entitled *The Hook*, that was to be produced by Columbia—which then withdrew from the project. "The reason, according to Miller, [was] that Harry Cohn, Roy Brewer, and the FBI all suggested that Miller should substitute reds for racketeers as the force terrorizing the waterfront workers. When Miller said no, Cohn fired off a telegram to him which said, 'Strange how the minute we want to make a script pro-American, Miller pulls out.' "\*19

Cheering on HUAC once again was the Motion Picture Alliance for the Preservation of American Ideals—with John Wayne as president and IATSE's Roy Brewer and the Teamsters' Joe Tuohy on its executive committee. Credited with "cleansing" the communists from Hollywood's labor unions, Brewer had remained the Alliance's chief enforcer and the keeper of the growing Hollywood blacklist.

In the end, HUAC blacklisted or "graylisted" nearly two thousand artists in the motion picture, radio, and television industries. Roy Brewer insisted, "The communists created the blacklist, themselves—or they brought it on themselves by making a record. And, first of all, they blacklisted the anti-communists to whatever extent that they could. . . . There never would've been a blacklist if the communists hadn't come in here and seduced these people and got them to pay money to further the cause of the Soviet Union and to discriminate against the people who didn't like it."<sup>20</sup>

Soon after the HUAC hearings, Brewer, who had been Hollywood's most powerful union force, went to work for the studios of Allied Artists, employed as the "manager of branch operations." Brewer's

<sup>\*</sup>Kazan later directed Budd Schulberg's anti-Mafia, pro-informer screenplay On the Waterfront, and Miller later wrote the anti-Mafia but anti-informer A View from the Bridge.

responsibilities included the handling of labor relations, except that this time he sat on management's side of the table.

With his departure from the union, Brewer was honored by a story appearing in *The Hollywood Reporter* stating: "It was Brewer who was responsible for the restoration of labor peace in Hollywood; it was he who was responsible for the routing of communists in the motion picture industry. . . . It was he who was mainly responsible for the creation of a public relations program which did so much to make of Hollywood what Rep. Donald L. Jackson recently said was 'without doubt the cleanest industry in the United States and in the world. . . . '"21

Meantime, the Reagan-led Screen Actors Guild joined the "Crusade for Freedom," a counterattack against "communist lies and treachery." Reagan, saying that SAG would not defend those actors who defied HUAC, told his SAG colleagues, "It is every member's duty to cooperate fully." SAG, following the James Petrillo-controlled American Federation of Musicians, passed a resolution in March 1951 that it would not take any action against those studios which would deny jobs to any actor whose "actions outside of union activities have so offended American public opinion that he has made himself unsalable at the box office." Two years later, SAG would force its membership—and those applying for membership—to sign loyalty oaths, saying, "I am not now and will not become a member of the Communist Party nor of any other organization that seeks to overthrow the government of the United States by force or violence."

MCA had remained passive while clients like Arthur Miller were red-baited and blacklisted in the entertainment industry. Talent agents, like just about everyone else in Hollywood, were busy finding cover. Instead of threatening to withhold all of their clients' services if one of them was blacklisted, they sat back and played HUAC and the Alliance's dangerous game. MCA was known to have asked for contract releases from their blacklisted clients, such as screenwriter Nedrick Young. Another screenwriter, Milton Gelman, who was also a former agent, said, "If MCA had gotten together with William Morris and said, 'We're going to pull all our shows off the air,' they could have broken the whole goddamn operation to begin with. The sponsors would have had nothing to show. But everyone ran scared."<sup>22</sup>

Reagan's experiences with HUAC, blacklists, and red-baiting, and his battles against the CSU, transformed his political outlook from that of a self-proclaimed liberal to a conservative anti-communist. From

that point on, he began allying himself more and more with the interests of the businessmen, the producers, and the studios, moving away from the working actors. He began to associate increasingly with the powerful studio executives, like Jack Warner and Louis B. Mayer; with the stronger anti-communists within SAG, like Robert Montgomery and George Murphy; and with other politically conservative Hollywood businessmen, like MCA executives Jules Stein and Taft Schreiber.

## CHAPTER TEN

As Ronald Reagan's political career became increasingly involved with the Screen Actors Guild, Jane Wyman's acting career took off in a big way. She received rave reviews for her performances in *The Lost Weekend* in 1945 with Ray Milland—who was the only non-MCA client among the top stars in the film—and *The Yearling* in 1947. Reagan spent more time at SAG meetings than he did with his family, which now included a daughter and an adopted son.

In June 1947, while Reagan was in the hospital with a severe case of viral pneumonia, Wyman gave birth to their third child. The baby was four months premature and died soon after delivery. The Reagan-Wyman marriage was never quite the same. Reagan became more deeply entrenched in politics, while Wyman started work on *Johnny Belinda*, in which she played a deaf mute.

The celebrated couple separated on December 14, 1947—a month after Reagan was elected to a full term as president of SAG. Charging Reagan with "extreme mental cruelty," Wyman filed for divorce and later disclosed in court that her husband's work with the Screen Actors Guild had led to the demise of the marriage. Even though Wyman had once been a member of the SAG board, she no longer shared her husband's interest in the union. When she was occasionally asked her

opinion about an issue, she felt that her ideas "were never considered important. Most of their discussions were far above me. . . . Finally, there was nothing in common between us, nothing to sustain our marriage."

Reagan received most of the sympathy in the Hollywood trade press. He bemoaned his state, saying with chagrin, "Perhaps I should have let someone else save the world and have saved my own home." Wyman needed little sympathy. While she and Reagan were separated, she won the 1948 Academy Award for Best Actress for her performance in Johnny Belinda.

Nine days before the separation, Reagan's name appeared on an FBI report entitled "Communist Infiltration of the Motion Picture Industry." Reagan was identified as FBI confidential informant "T-10," according to a story first reported in the San Jose Mercury News.<sup>2</sup>

The first known reference to Reagan's name in an FBI file had been made on September 17, 1941. An FBI agent wrote a memorandum to Hugh Clegg, the assistant special agent in charge of the FBI's Los Angeles Division. The G-man wrote that he had become "intimately acquainted with the following persons who might be of some assistance to the Bureau." Among the names listed was "Ronald Reagan, Warner Brothers Studio, Hollywood, California."

Reagan was first contacted for information by the FBI on November 18, 1943, according to a Justice Department document. At the time, he was in the military, stationed at "Fort Roach." During this first known FBI interview with Reagan, the actor told a special agent that he had nearly been in a fistfight with a German sympathizer who had made some anti-Semitic remarks during a party in Los Angeles.

The FBI report stated, "Reagan and [name deleted] became involved in a conversation about the conduct of the war. . . . Specifically subject [name deleted] stated that the Jews involved in shipping were glad of the sinkings of Allied vessels by German submarines because they profited thereby through an insurance racket. . . . Due to the nature of the remarks made by subject, Reagan became highly incensed and withdrew from the conversation. He said that he almost came to blows with subject, although he emphasized that considerable drinking had been done by all persons involved."

On April 10, 1947, Reagan and Wyman were visited by the FBI and interviewed about the Hollywood Independent Citizens Committee of Arts, Sciences and Professions (HICCASP), which Reagan had quit in 1946 because of suspected communists among its leadership. Also, during this interview, Reagan gave the FBI an outline of his duties as

SAG president, and both he and Wyman provided the government with "information regarding the activities of some members of the Guild who they suspected were carrying on Communist Party work."

The FBI report continued, "Reagan and Jane Wyman advised [that] for the past several months they have observed during Guild meetings there are two 'cliques' of members, one headed by [name deleted] and [name deleted] which on all questions of policy that confront the Guild follow the Communist Party line.

"T-10 advised Special Agent [name deleted] that he has been made a member of a committee headed by [Louis] B. Mayer [the head of MGM], the purpose of which allegedly is to 'purge' the motion picture industry of Communist Party members, which committee was an outgrowth of the Thomas Committee hearings in Washington and the subsequent meeting of motion picture producers in New York City. . . . T-10 stated it is his firm conviction that Congress should declare, first of all, by statute, that the Communist Party is not a legal party, but is a foreign-inspired conspiracy. Secondly, Congress should define what organizations are communist-controlled so that membership therein could be construed as an indication of disloyalty. He felt that lacking a definitive stand on the part of the government it would be very difficult for any committee of motion picture people to conduct any type of cleansing of their own household."

The interlocutory judgment for the Reagans' divorce decree was granted on June 29, 1948, after a property settlement the previous February. The divorce became final on July 18, 1949. According to civil records in the Los Angeles Hall of Records, Wyman kept custody of their two children and their principal residence on Cordell Drive in Los Angeles. Represented by SAG attorney Laurence Beilenson, Reagan agreed to pay five hundred dollars a month in child support. The couple had also purchased an eight-acre property—they named it "Yearling Row" after their best movies, The Yearling and King's Row—in the San Fernando Valley. Reagan kept that, as well as his membership in the Friars Club, a Los Angeles men's club whose members included Mickey Rooney, Johnny Roselli, Groucho Marx, and Sidney Korshak.

In the meantime, Reagan's acting career had taken a nosedive. After a string of losers, he was passed over by Warner Brothers for the lead in *Ghost Mountain*, which eventually starred Errol Flynn. Reagan was angered when Warners was publicly critical of his role in *That Hagen Girl*, a box-office disaster he never wanted to do, in which he starred with a grown-up Shirley Temple. Consequently, Reagan threatened to

sabotage his next film with Warners. Lew Wasserman and MCA came to the rescue.

"Lew had foresight and a more practical approach," Reagan said. "My contract [with Warner Brothers] had three years to go. Lew rewrote it to read one picture a year for three years, at a salary for that one picture equal to half my yearly income, and full rights to do outside pictures. In other words, I was at last a free lance. My face was saved and the studio wasn't hurt because every studio in town was really trying to unload contracts. . . . One week later Lew added a five-year, five-picture deal at Universal, and I bellied up to the bar like a conquering hero ordering drinks for the house. You could hardly see my wounded ego under all those \$75,000 plasters."

Reagan's escape from his contract with Warners was facilitated by the 1948 U.S. Supreme Court landmark decision in the Paramount antitrust case. The court held that the eight Hollywood studios had violated federal antitrust laws and thus, among other actions, were forced to "divorce" their companies from their theatre holdings. The decision immediately caused tremendous financial problems for the established film industry. Production lots were sold, and many actors' contracts were dropped. However, top actors were then in a position to demand a cut of a picture's gross—which guaranteed them money, even if a picture did poorly at the box office.

The Paramount case also dramatically affected the actual financing of motion pictures. Prior to the decision, the studios were assured of the distribution of their films because of their ownership of local theatres. In fact, before World War II, the major motion picture production companies financed their own projects. Because the studios were forced to divest themselves of these theatres, banks were reluctant to loan money for film production without full security. Banks would even take a mortgage on the motion picture—after the production company approached the bank with a complete package, which included the script, director, and stars. With the financial crunch felt by the Hollywood establishment, independent movie producers began increasingly doing their own films, obtaining financing from their private sources.

Television was the new rage, and box-office revenues began to drop dramatically. Instead of trying to jump into television in its infancy, most of the studios preferred to ignore it. One exception was Barney Balaban at Paramount, influenced by stockholder Jules Stein, who viewed television as a means of "advertising and promoting the Hollywood product."

In his Saturday Evening Post series on MCA, David Wittels had revealed that Jules Stein was the second-largest stockholder in Paramount Studios, with 20,000 shares. The reporter concluded that MCA "is the biggest and most powerful booking agency in the history of show business," but that "MCA controls too many jobs with its intricate tie-ups throughout the entertainment industry, its package deals with its exclusive contracts with outlets for talent."

Regarding Jules Stein's purchase of Paramount stock, a Justice Department document alleged that after the acquisition, MCA "began to feed its clients to Paramount. This was done partly in order to enhance the value of the stock. . . . Through the purchase of this stock, Paramount was made a captive market by MCA for its talent."

Despite his newfound free-lance status, Reagan was still badly shaken after his divorce. According to the trade publications, he appeared to be devastated. Reagan moved into a small apartment and became a bachelor again, looking for a way out of his personal and professional problems. However, he did find time to help Nancy Davis, a twenty-eight-year-old actress whose name had appeared on Communist Party mailing lists.

Nancy Davis was the daughter of stage actress Edith Luckett and the stepdaughter of Dr. Loyal Davis, a prosperous Chicago neurosurgeon who had adopted Nancy when she was very young. A 1943 graduate of Smith College, Nancy Davis had been deeply influenced politically by her stepfather, who was an ultraconservative anti-communist. After college, she came to Hollywood and in 1949 was cast in her first film, Shadow on the Wall, which starred Zachary Scott and Ann Sothern. She then made a brief appearance in The Doctor and the Girl, with Glenn Ford and Janet Leigh. Davis had gone to her producer at MGM, Mervyn LeRoy, a close friend of Sidney Korshak and later the president of the Hollywood Park Racing Association, who advised her to talk to the president of SAG about the Communist Party mailings she was receiving.

"I told Mervyn how upset I was," Davis remembered. "Mervyn made my problem his—he is that kind of man. He told me he knew the man who could fix this thing, the president of the Screen Actors Guild, and would speak to him about my problem. . . . Mervyn assured me that Ronnie was a nice young man and I was a nice young woman, and it might be nice if we met."

LeRoy also recalled the incident, adding, "I called Ronnie and explained the problem. I said he ought to talk to the girl, because the whole thing had her so upset.

"'Besides,' I said, 'you're single and she's kind of cute and you should meet her.'

"So Ronnie said, okay, send her down. . . . I always say that's the one and only thing we can thank the communists for—if it hadn't been for their propaganda material, Nancy and Ronnie Reagan might never have met."

Later, it was determined that another Hollywood Nancy Davis had been politically active, and that the two were confused. MGM's Nancy Davis was "cleared," and she and Reagan started dating. Soon after, she was appointed to fill a vacant seat on the SAG board of directors—where she could be closer to her new boyfriend and help him with his work.



As REAGAN LEFT WARNER BROTHERS, so, too, did his producer, Bryan Foy, who had had a falling out with Jack Warner, the president. Foy was then appointed as executive producer at Eagle-Lion Studios, run by Arthur B. Krim, who later bought out United Artists. As one of his first acts in his new position, Foy named Chicago Mafia figure Johnny Roselli as an Eagle-Lion producer. The appointment came just as Roselli was released from Atlanta Penitentiary, where he had served less than half of his six-year sentence for his role in the Bioff-Browne-Schenck scandal.

Three other convicted conspirators in the scandal were also released around the same time. In 1947, Tony Accardo, who had become the boss of the Chicago Mafia after Nitti's suicide, visited Paul Ricca, Louis Campagna, and Charles Gioe at Fort Leavenworth Penitentiary. Accardo, who was accompanied by Chicago attorney Eugene Bernstein, had illegally assumed the name of another lawyer, Joseph Bulger.\*

Soon after, according to a government report, "the three mobsters

<sup>\*</sup>Accardo and Bernstein were later indicted—as a result of Accardo's use of a false name—but both were later acquitted. However, Campagna and Ricca had been told that their paroles would not be granted until their combined tax debt to the IRS, totaling nearly \$470,000, was paid. Bernstein came to the rescue, settling the two mobsters' accounts with the government by offering a \$190,000 combined settlement. Bernstein said he received the money, in cash, from "persons unknown." Soon after the payment was made, Campagna and Ricca were released.

were released on parole after serving a minimum period of imprisonment although they were known to be vicious gangsters. . . . A prominent member of the Missouri bar [Paul Dillon, who had been Harry Truman's campaign manager in St. Louis in 1934] presented their parole applications to the parole board, which granted the parole against the recommendations of the prosecuting attorney and the judge who presided at their trial. . . . [T]his early release from imprisonment of three dangerous mobsters is a shocking abuse of parole power."

The Chicago Crime Commission stated that "during the congressional hearings in September 1947, Harry Ash [director of the Illinois Crime Prevention Bureau] testified that in May 1947 he received a letter from a parole authority in the penitentiary in Leavenworth, Kansas, inquiring as to whether he would be willing to serve as a parole adviser for Charles "Cherry Nose" Gioe. About the same time that the message was received, attorney Sidney R. Korshak, who had formerly represented Gioe, called Ash on the telephone and requested him to act as parole adviser for Gioe. Ash did write a letter, in which he stated that he had known Gioe since 1915 and considered him a satisfactory subject for parole."

Ash had been Korshak's law partner since December 1939.

Johnny Roselli's real name was Filippo Sacco. He was born in Esteria, Italy, on June 4, 1905, and came to the Boston area when he was six. Moving west as a teenager, he settled in Chicago and became a bootlegger and a gambler, working for the Capone gang.

Roselli was sent to Los Angeles about 1930 and worked in the illegal gambling wire service operated by Moses Annenberg, the former circulation manager for the Hearst newspapers who also had supplied information to bookmakers across the country. Annenberg owned several publications, including *The Philadelphia Inquirer, The Daily Racing Form,* and two raunchy magazines, *Baltimore Brevities* and *Click,* which was banned by the Canadian government.

Annenberg was indicted by a federal grand jury in August 1939 for income tax evasion, along with two associates and his son, Walter Annenberg, who was charged with aiding and abetting the income tax evasion of his father. The following year, the elder Annenberg pleabargained, agreeing to admit his guilt if the charges against his associates and son were dismissed. The government agreed to Annenberg's terms. He was required to pay \$9.5 million in back taxes and penalties

and sentenced to three years in Lewisburg Penitentiary in Pennsylvania. Two years later, while out on parole, Annenberg died, and Walter Annenberg took over his father's publishing empire.

When Annenberg's wire service ended, Roselli was working for Pat Casey, MPPDA's labor negotiator, and was officially on Casey's payroll when he was indicted for extortion in 1943. Roselli once told his friend, Southern California Mafia leader James Fratianno, "The best years of my life were when I was a producer with Brynie Foy. I liked being with those people. I knew half the movie people in this town on a first-name basis. Jack Warner, Harry Cohn, Sam Goldwyn, Joe Schenck, Clark Gable, George Raft, Jean Harlow, Gary Cooper. Shit, I even knew Charlie Chaplin. I knew them all and enjoyed their company."

But Roselli's profile loomed too large for him to go back to his old ways. Even though no one complained about his reentry into Hollywood—not Ronald Reagan, Roy Brewer, the studio producers, or the Motion Picture Alliance for the Preservation of American Ideals—Roselli was no longer the Chicago Mafia's eyes and ears in Hollywood.

Also gone from the scene was Benjamin "Bugsy" Siegel, who had come a long way from his boyhood roots on New York's Lower East Side, where he, Meyer Lansky, and Charles "Lucky" Luciano created the strongest criminal triumvirate in modern American history. While operating in Hollywood, Siegel had been introduced to the local elite by George Raft. The mobster dined with Mary Pickford and Douglas Fairbanks, Jr., and lived in the same neighborhood as Humphrey Bogart, Judy Garland, and Bing Crosby. The stars seemed to enjoy having the friendship of a gangster; it was their version of a walk on the wild side. Jack Warner frequently boasted about his friendship with the mobster.

Siegel, with the help of Del E. Webb Construction, had built the first big-time Nevada hotel/casino, the Flamingo, near two other establishments, the Last Frontier and the El Rancho Vegas, along Highway 91 in Las Vegas. The Flamingo quickly became a weekend resort on "The Strip" soon after it officially opened on March 27, 1947. Through the friends he made in Hollywood, Siegel always had top stars perform in his floor shows. However, Siegel lived too high and managed to get himself badly in debt. As a result, he skimmed perhaps as much as \$3 million from the Flamingo's treasury—and was caught.

While staying at the Beverly Hills mansion of his lover, party-girl Virginia Hill, on June 20, 1947, Siegel was killed by Frankie Carbo, who emptied the nine-bullet clip of his .30-caliber army carbine through an

With Roselli overexposed and Siegel dead, the Mafia needed a new face to run its operations in Hollywood. The man selected for the job was Sidney Korshak, who had allegedly been involved in the battles between IATSE and CSU. He had the legal background, the necessary contacts in the film industry, and the full support of the Chicago Mafia.

Consistent with a 1942 IRS report which stated that Korshak was "often delegated to represent the Chicago mob, usually in some secret capacity," a law-enforcement official in Los Angeles said, "Korshak wasn't the kind of guy who formally represented the Chicago mob. He was more valuable in the shadows, with plenty of insulation. They needed a face that wasn't too familiar, and a name that wasn't too notorious. They also wanted a guy without the overt connections, someone who could appear legitimate."

In fact, according to an FBI document based on wiretap information, Chicago mobster Leslie "The Killer" Kruse "had been instructed by the 'outfit' never to personally contact Sidney Korshak, hoodlum attorney."<sup>5</sup>

By January 1948, Korshak had taken a home at 1711 Coldwater Canyon, just outside Beverly Hills, and had another house at 17031 Magnolia in Encino, an exclusive area in greater Los Angeles, while keeping his residence and law practice in Chicago.<sup>6</sup>

Labor lawyer Sidney Korshak, who had been operating in California since the early 1940s, had really arrived in Hollywood. A new, more ambitious and sophisticated era of the Mafia's penetration of the film industry had begun.



THE SENATE Special Committee to Investigate Organized Crime in Interstate Commerce began its work in May 1950. Chaired by Senator Estes Kefauver, a lanky, homespun Democrat from Tennessee, and with Rudolph Halley as chief counsel, the five-member Kefauver Committee intended to travel from city to city and hold hearings, investigating the extent of the Mafia's influence in the United States. In the process, Kefauver was walking on political eggshells, since most of the big-city mobs, at that time, were working with the local Democratic Party machines. His sidekick was Senator Charles W. Tobey, a Bible-thumping Republican who usually wore a copyreader's visor during the hearings.

Nearly twenty million people would view the live, televised coverage provided by NBC and CBS as some of America's top underworld figures appeared before the Senate panel and network cameras. However, most of the mobsters called refused to answer even the simplest of questions, preferring instead to take the Fifth Amendment.

New York mob boss Frank Costello insisted that his face not appear on television—so the cameras focused on his wringing hands throughout his testimony. A close friend of Jack Warner's and George Wood's (Wood was a vice-president of the William Morris Agency), Costello Philip D'Andrea, one of the Chicago Mafia members convicted in the Bioff-Browne-Schenck scandal and the former editor of a newspaper for Italian-Americans, was in California when he was subpoenaed to testify before the committee. When asked whether he had heard of the Mafia, he claimed that he really didn't know much about it.

"Would you say it would be unusual for any man of your age who was born in Sicily to say that he knew nothing about the Mafia?" asked George S. Robinson, the committee's associate counsel.

"Yes, I would think so," D'Andrea replied. "If he was born in Sicily, I would think so, because, as I say, years ago it was a byword in every family. People were scared to death of having a little home, for fear somebody would come over and blow it up, or for fear that they would get a letter. That was the condition here about twenty years ago, that I recall."

"What would you say were some of the other concepts or principles of the Mafia that you recall from your childhood, having heard talked about in the family?"

"One of the concepts was that it would be a good idea to keep your mouth closed."<sup>2</sup>

Also testifying was former MPPDA "investigator" Johnny Roselli, who said that he had been employed by Eagle-Lion Studios, under Bryan Foy and Robert T. Cain Productions. He also said that he had financed and produced two movies, but that he was then unemployed because Foy had gone back to Warner Brothers. Counsel Halley replied, "Mr. Foy hasn't dumped you. He phoned me in a very nice way. He asked for no favors, but he told me he wanted me to know that in his opinion you were going straight, that you have had a lot of unnecessary trouble. He asked for nothing, but he felt he ought to give you that character backing."

Roselli had also been instrumental in the war between Harry Cohn and his brother, Jack, in 1932, when the two men were battling for control of Columbia Pictures. When a third partner offered to sell his shares to the highest bidder, Harry Cohn turned to Roselli, who obtained the money from New Jersey crime boss Abner "Longy" Zwillman. At one time, Cohn, a former New York pool hustler, reportedly had gambling debts as high as \$400,000 while with Columbia. And, again, Roselli helped bail him out. As a gesture of their friendship,

Cohn proudly wore a star sapphire ring Roselli had given him as a gift. With Roselli around, Cohn felt protected when Bioff and IATSE threatened Columbia with a strike.

Before the Senate committee, Roselli was then asked how he first became involved with Bioff and the studios.

"I represented, we might say, the picture industry. I worked for Pat Casey, who was a labor conciliator for the industry. I was with him for several years, and along about 1941 or 1942 I was indicted with the rest of them. I met Browne and Bioff along [sic] fifteen, sixteen, or seventeen years ago. In their negotiations out on the West Coast, Mr. Bioff was running the industry to his own liking, with others. I would discuss this with Pat Casey, and there were wild and woolly rumors about this man [Bioff] getting money. I was very friendly with Harry Cohn, on whom Bioff called a one-day strike. I was successful in getting the strike called off."

"How did you do that?" asked Halley.

"At this time Mr. Cohn was at Palm Springs. He called me on the telephone and told me about the strike being called in the studio. He knew that I had known Browne and Bioff. How he knew it was either through—Mr. Cohn and I used to go to the races, and one day Browne and Bioff stopped by Mr. Cohn's box and knew him and me. We talked and walked away. So he [Cohn] said, 'I know you know this fellow [Bioff]. Would you like—' he knew that I was around Pat Casey, doing some work for him. 'Would you try to make a contact with Bioff to find out what this thing is?' I said, 'Why don't you have Mendel Silverberg, who was the attorney, or Mr. Casey do it?' He said, 'Well, no one seems to find them here this morning.'

"I said, 'You mean you want me to go represent you?' He said, 'Yes.' So I talked it over I think that day with Pat Casey. I asked him if he knew what violations there were at this studio. He said that he didn't think there were any. I asked him if he tried to get hold of Bioff that day, and he said he couldn't find him. I went to the telephone. I stopped and had lunch—this was around eleven-thirty or twelve o'clock—at the Vendome on Sunset Boulevard and tried to get Bioff on the telephone. He told me he wasn't around, that he wasn't available. I knew I had this thing to do for Mr. Cohn, who was my friend. Of course, I didn't think it was the right thing. I didn't think there was any violations there. I went to his [Bioff's] office. The girl tried to stop me and I stepped over the railing. There was a low railing there. I went back to his office. He was sitting behind his desk I think with his hat on. He

may have had a topcoat. I remember the picture very well. He had a gun on his desk. I said, 'I just called you up. What is the idea of your not answering the telephone?'

"Who is this you were calling on?" asked Kefauver.

"Bioff. He said, 'Well, I think I know what you want.' I proceeded to call him names. The reason I did that was because I knew this man was a vicious man. I saw this gun on his desk, but I was on the right side, I guess. I might as well say that. I asked him what the idea was of calling the strike on Cohn. He said, 'Well, I found there were violations, and it is not my fault.' He said, 'Browne ordered me to do it.'

"I said, 'You get Browne on the telephone and I will talk to him.' I think he did. In fact, I know he did. I talked to Browne and Browne told me on the phone, he said, 'Listen, that is not my doing. That is his [Bioff's]. Don't let him kid you.'

"I hung up and said, 'If there are any violations you talk to Harry Cohn and get it straightened out.'

"He said, 'All right.' I think we called Harry Cohn at Palm Springs, and Bioff talked to him. We later made an appointment at my apartment. Oh, at that point Bioff said, 'Well, you know, [former Chicago Mafia boss] Frank Nitti is my friend.'

"I said, 'To hell with you and Nitti.'

"He said, 'Well, I am going to have to tell him.'

"I said, 'I don't care who the hell you tell. If you have a violation on this studio, you go ahead and call us." Of course, I used some choice language which I wouldn't want to repeat in front of you gentlemen. I was mad enough to use it at the time.

"He [Bioff] met Harry Cohn at my apartment that afternoon, that evening. I sat there with him a few minutes, and we had some words. He [Bioff] said he found the violations. He wouldn't state the violations that he found, but he said the men could go back to work that evening."

"What respect did you command with respect to Bioff and Browne?" Halley asked.

"I didn't command any respect from Browne but I was going to command it from Bioff that day."

"How?"

"If he didn't have a violation, I knew that there were rumors around that this man was doing things in the industry which I didn't think were just right and I knew he was getting money somewhere. I didn't know he was getting money, but there were rumors that he was, and he wasn't going to do that to a friend of mine."

"How were you important enough that they cared what you thought?"

"He didn't seem to care. He called the strike, and I was just showing their hand, I guess. They probably didn't want things to tumble on top of them maybe."

Forty-six-year-old Charles "Cherry Nose" Gioe also testified.\* He insisted that all he knew about the Mafia was "what I read in the newspapers." Gioe was then asked about his relationship with Sidney Korshak. "I have known Sidney a long time, just as friends," Gioe replied.

- "How long have you known him?" Kefauver asked.
- "I would say I knew Sidney maybe sixteen or seventeen years."
- "You were not in school with him?"
- "No. sir."
- "How did you get to know him?"
- "Through some fellows on the West Side when he just opened his office. He had just finished school and opened an office, I believe, about that time."
  - "What fellows?"

"Oh, some kids he knew around there that I just happened to know. It was just a casual acquaintance at the time when I met him, just as a lawyer. That is all. I think he handled a deal for them in regard to a café or something. That was the first time I met him."

Korshak—whose brother Marshall was elected to the Illinois State Senate—had been the first person to be subpoenaed for the Senate panel's public hearings in Chicago. However, he was never called as a witness before Kefauver and the members of his committee left Chicago. What happened? According to *The New York Times*, "Ironically, the Kefauver Committee's 1950 hearings on organized crime provided Mr. Korshak with an opportunity to enhance his reputation. . . .

"One trusted Korshak friend and business associate recalled in an interview that shortly after the committee's visit Mr. Korshak had shown him infrared photographs of Senator Kefauver in an obviously compromising position with a young woman.

"Mr. Korshak explained, the friend said, that a woman had been supplied by the Chicago underworld and a camera had been planted in the Senator's room at the Drake Hotel to photograph her with Mr. Kefauver.

<sup>\*</sup>Gioe had once been arrested with James de Mora—alias Jack "Machinegun" McGurn—who had ordered vaudeville actor Joe E. Brown's throat slashed in November 1927. On another occasion, Gioe had been arrested with Tony Accardo for carrying concealed weapons.

"'Sid showed it to me,' the friend said. 'That was the end of [the] hearings, and this also made Sid a very big man with the boys. Sid was the guy responsible.'"

In the midst of the hearings, Lester Velie, a crime reporter for Collier's, described the Chicago Mafia as being "as strong today as the United States Army." In discussing Korshak, Velie wrote that he "seems to transact much of his practice while traveling, for he is out of his office about half the time—shuttling between Chicago, New York, Florida, and the West Coast. . . . Korshak seems to commit little business to paper and keeps few files."

At the end of the committee's investigation in 1951—which included 52,000 miles of travel to fifteen cities—the panel concluded, "There is a sinister criminal organization known as the Mafia operating throughout the country with ties in other nations. . . . The Mafia is the direct descendant of a criminal organization of the same name originating in the island of Sicily. . . . The membership of the Mafia today is not confined to persons of Sicilian origin. The Mafia is a loose-knit organization specializing in the sale and distribution of narcotics, the conduct of various gambling enterprises, prostitution, and other rackets based on extortion and violence. . . . The power of the Mafia is based on a ruthless enforcement of its edicts and its own law of vengeance, to which have been creditably attributed literally hundreds of murders throughout the country."

In its 1,400-page final report, the Kefauver Committee recommended to the full Senate that wiretapping be legalized for federal agents to combat organized crime. It also proposed that witnesses against the mob be given immunity from prosecution in return for their testimonies against their more dangerous bosses. Both proposals were rejected by the Senate.

On the motion picture front, Associated Press Hollywood correspondent James Bacon credited MCA's Lew Wasserman with saving Universal Pictures by getting his client Jimmy Stewart to play the lead in the 1950 Western drama *Winchester 73*.

"In those days, Bill Goetz was head of the studio and it was in financial trouble," Bacon wrote. "There were no star names on the roster, just seventy-five-dollar-a-week contract players like Rock Hudson and Shelley Winters. Goetz cast Rock and Shelley in the movie but needed a star name to sell the picture. Wasserman sensed this and demanded—and got—a fabulous deal for Stewart that netted him fifty percent of the profits.

"The movie was a blockbuster at the box office. Jimmy got rich. Goetz got blasted by all the other studio heads for ruining the industry. Percentage deals for stars were practically unheard of in those days."

As the giant talent agency began to turn its attention to television, the Justice Department's Antitrust Division in Los Angeles received a letter from Assistant U.S. Attorney General Herbert A. Bergson, notifying its staff that the government had "recommended against the FBI investigation [of MCA]. Our file in this matter [is] accordingly closed. . . . "9

MCA was spared once again.

 $\coprod$ 

THE FALL



ALTHOUGH TELEVISION technology began as early as 1923, network programming really didn't start until 1946. General Electric, an early pioneer in the new medium, began telecasting in Schenectady, New York, in 1928, while NBC and CBS had created primitive television stations in New York City in 1930 and 1931, respectively. By 1938, NBC was broadcasting scenes from the Broadway play Susan and God, as well as occasional on-the-scene news events. The following year, NBC televised the opening ceremonies of the 1939 World's Fair in New York, featuring President Franklin D. Roosevelt delivering the keynote address. At the time, television viewing was so limited that NBC maintained a list of everyone who owned a television and sent them directly a weekly schedule of programs to be aired.

By 1941, NBC and CBS had several shows to offer their New York viewing audiences. Working with General Electric, NBC had developed the first network, telecasting the same programs to its station in New York, General Electric's station in Schenectady, and a Philco station in Philadelphia. That same year, both NBC and CBS became the first commercially licensed television broadcasters.

After the war, while the motion picture industry was having its best time ever—grossing over \$2 billion in 1946 alone—network television started to take off. The Depression was over, and people had money. With this money, they could get married, buy homes, and raise families. Leisure time became premium family time. And, to those who could afford a television, family time started to revolve around the TV sets in their living rooms. Advertisers viewed television as a revolutionary new means of reaching consumers. Producers, directors, writers, technicians, and actors discovered a new medium to exhibit their talents.

On May 9, NBC unveiled the first entertainment series, Hour Glass, an hour-long variety show, sponsored by Chase and Sanborn Coffee and Tender Leaf Tea. Hour Glass was followed by such NBC programs as I Love to Eat, a cooking show, and Gillette Cavalcade of Sports. NBC's Kraft Television Theater followed in 1947 with low-budget dramatic productions.

Not yet competitive in the new market, CBS was already trying to revolutionize the industry by making color television the standard—and thereby making the other networks' black-and-white telecasts obsolete. But CBS's technology was not ready. After NBC broadcast the first televised World Series in 1947, CBS jumped into the black-and-white market. By 1948, CBS was coming on strong with Arthur Godfrey's Talent Scouts and Ed Sullivan's Toast of the Town.

In August 1948, ABC received its first New York station and began programming sports shows, news shorts, and old movies.

MCA watched the growth of television carefully. Jules Stein said, "There is nothing so permanent as change. Had I stayed in the radio business, I'd be out of business today. We went into television when the movies could have taken over the television business. In the early days of television, the movie business could have owned the stations. But those men [the studio owners] were too sure of themselves. They were too smug."

In the midst of the near-extinction of the big bands—caused by the popularity of individual singers and the rise of bop—seven major record companies—Capitol, Columbia, Decca, London, Mercury, MGM, and RCA—remained in business, recording more solo artists and smaller musical groups.

As television eclipsed the popularity of radio, it also started to challenge the motion picture industry, which was in the midst of a deep recession and had turned to such gimmicks as "3-D," "Natural Vision," and "Cinerama" in hopes of revolutionizing the film business.

The boost that sent Jules Stein, Lew Wasserman, and MCA rocketing into the world of television occurred during Reagan's final months as the president of the Screen Actors Guild in 1952.

MCA had already started producing earlier that year. MCA vice-president Karl Kramer first suggested forming Revue Productions for a television show called Stars Over Hollywood. Kramer was given the go-ahead to find a commercial sponsor. Armour, the meat packer, obliged; thus, Revue Productions, MCA's new television production company, was born. MCA rented space at Eagle-Lion Studios for its early production ventures.

In 1939, SAG had amended its by-laws to read that no agents could engage in theatrical film production without a waiver from the Guild. According to SAG's by-laws, "[The] Screen Actors Guild may issue waivers at its discretion . . . but any such waiver shall be without prejudice to any claim by an actor that the agent's production activities have interfered with the proper representation of the actor by the agent or to the agent's defense thereto."

Any violation of this rule would be classified as a conflict of interest since agents would be representing their clients in negotiations with their own production companies. In other words, instead of an actor employing the agent, the agent would remain the agent but also become the employer. However, the SAG by-laws had not been updated to specifically include television production.

Reagan and the SAG board were involved in negotiations with the Alliance of Television Producers over the issue of paying actors when TV programs were rerun, which the producers had refused to do. The Guild postponed a threatened strike to negotiate further. On June 6, 1952, former SAG legal counsel Laurence Beilenson—who had become exclusively an attorney for Revue Productions and had previously represented Reagan in his divorce from Jane Wyman—met with members of the SAG board to discuss a possible solution to the deadlock in the negotiations.

"MCA had been trying to get me for years," Beilenson explained. "And I always told them that I wouldn't take them as long as I was representing the Guild. So I resigned from the Guild... in 1949. After I resigned, Wasserman called me and said, 'What's holding you now?' And I said, 'Nothing.'"

Beilenson added that he went with MCA-Revue with the proviso that "I not take part in any negotiations with the Guild or unions, because, when I was representing the Guild, I wouldn't represent agents or producers. I felt that would constitute conflicts of interest."<sup>2</sup>

Nevertheless, soon after joining the MCA-Revue team, Beilenson was thrust into the middle of the SAG-ATP dispute. Beilenson suggested a formula whereby the producers could rerun a program

once for free, with a minimum royalty schedule for all future reruns. Because it was thought that other Hollywood unions would be affected by any ultimate agreement, SAG and the producers agreed to bring IATSE's national president, Richard Walsh, into the discussions. Walsh met with SAG's executive committee at the home of SAG board member Walter Pidgeon. Walsh told the committee that IATSE would support a SAG-sponsored strike. James Caesar Petrillo, the president of the American Federation of Musicians, was also brought into the negotiations and pledged his union's support to SAG's cause.

The following week, according to SAG's official minutes of the June 16, 1952, meeting of the SAG board of directors, "[D]iscussions were held with Revue Productions, which is in the rather peculiar position of being on both sides of the fence inasmuch as they are agents for actors as well as being producers." MCA was indeed engaging in production without an SAG-approved waiver.

As the negotiations between SAG and ATP progressed, the producers relented somewhat, indicating that, according to the minutes of the June 30th board meeting, "[T]hey want that second run without any additional payment. They will agree to repay fifty percent of the actor's salary for the third and fourth run, twenty-five percent for the fifth run, and a single twenty-five-percent payment for the sixth and all subsequent runs."

SAG still wasn't ready to settle. Then, the SAG minutes continued, "Further discussion was had with Mr. Beilenson, representing Revue Productions, who stated that if a deadlock exists, they would still be willing to help break it. In connection with the negotiations with Revue, it was pointed out that this [is] a wholly-owned subsidiary of MCA and that the pattern of agents' interests in production in television, as in the radio field, is well established. Consequently, it appears desirable to recognize the right of agents to engage in TV film production and package-show operation, subject to reasonable regulation by the Guild."

Once the contract between SAG and ATP was made final, Lew Wasserman immediately wanted to get MCA into the television production business on a larger scale. In order to gain authorization for this dual status, MCA had to convince SAG to approve an exclusive "blanket waiver" of its rules. The only previous exceptions had been for the Myron Selznick Agency and Charles Feldman, an agent for Famous Artists, who also made an occasional movie. Selznick and Feldman received temporary SAG waivers on a case-by-case basis and under strict union control.

According to SAG guidelines, the process for obtaining a waiver was quite simple. The agent telephoned the SAG office, saying he wanted to produce a show. He would be told to submit a letter to the union, applying for the waiver. Upon receipt, a SAG committee would determine whether or not to grant the request.

In July 1952, there was a series of meetings between certain members of the SAG board and MCA, including Wasserman, Schreiber, Beilenson, and Kramer. No record of these private meetings was kept.<sup>3</sup>

At the conclusion of these talks, Reagan and SAG national executive secretary John Dales—working in concert with Beilenson—managed to engineer a "special arrangement" between the union and the giant talent agency. However, a Justice Department document stated that "Wasserman and Schreiber could sell SAG anything" because of their relationship with Reagan.<sup>4</sup>

The unprecedented deal granted MCA permission to operate in the profitable field of television production with its talent agency, MCA Artists, and its new television production company, Revue Productions, headed by MCA executive Taft Schreiber. Nothing like it had ever been approved by the SAG board before.

According to the official minutes of the July 14th meeting of the full SAG board\*: "A report was made on a special agreement which has been drawn up between Revue Productions, Inc., a wholly-owned subsidiary of MCA Artists, Ltd., and the Guild in connection with television production. . . . The board indicated at its last meeting that it understood and agreed that agents would be interested in the television field as they are in radio. Therefore, further meetings were held with Laurence W. Beilenson, representing Revue Productions, and an agreement was reached which permits MCA to enter and remain in the field of film television during the life of the present Agency regulations but prohibits them from charging commission to any of their clients who appear in their television films."

According to SAG board member George Chandler, "MCA asked [the] Screen Actors Guild for assurances that if it signed and continued in television film production, it would not have to cease such production when [the] Screen Actors Guild should later regulate agents in the television film field. The Screen Actors Guild Board of Directors, after

<sup>\*</sup>Aside from the president, Reagan, present for all or part of the July meeting were SAG board members Leon Ames, Edward Arnold, Gertrude Astor, Richard Carlson, George Chandler, Nancy Davis, Rosemary de Camp, Frank Faylen, Wallace Ford, Paul Harvey, Robert Keith, Grafton Linn, Philo McCollough, Walter Pidgeon, George Sowards, Kent Taylor, Regis Toomey, Audrey Totter, and Rhys Williams.

Only a handful of these actors were actually represented by MCA.

consideration, granted this request, agreeing that if in the future it should adopt agency regulations in the television film field which prohibited agents from engaging in television film production, it would grant MCA a waiver of such prohibition for the term of the regulations. The agreement was made by Screen Actors Guild to stimulate employment of actors in television films at a time when motion picture employment was generally at a low ebb."

Walter Pidgeon made the following motion, seconded by Leon Ames: "RESOLVED, that the special letter agreement with Revue Productions, Inc., and MCA Artists, Ltd., copy of which is attached hereto, be and it is hereby approved and ratified."

According to the minutes of the meeting, the motion carried unanimously.

John Dales, an attorney who had been SAG's executive secretary since 1943, recalled that the SAG board felt that the studios were threatened by television, so the board decided, "'Here's a chance for these guys [MCA] to really go and bring this business to Hollywood and keep it there.' We were concerned about potential conflict. So we went back to them [MCA] and said, 'If we franchise agents—and we think we will—we will give you a waiver to produce, but with all kinds of restrictions: you can't take any commissions from any of your actors that you put in those pictures. Secondly, you must give them not less than the amount they customarily receive—in fact, not less than their highest salary for comparable work. And there was to be a fiduciary relationship [between agent and actor], which 'we will be the judge of as to whether or not you're carrying [it] out.' In other words, everything the agent does with respect to the actor must be in the best interest of the actor."6

In his July 23, 1952, letter to MCA, Reagan wrote, "At the present time you are engaged in the motion picture and television film agency business and in the television film production business; you expect to continue in both. You have explained to us your reasons for so doing.

"We agree that for a period commencing with the date hereof and expiring October 31, 1959, if any contract rule or regulation made by us prevents your engaging in both businesses we hereby give you waiver thereof for such period. . . ."

Revue Productions, after receiving the SAG waiver, immediately "began to sell reruns of *Stars Over Hollywood* directly to local stations and advertisers, and soon after produced its first syndicated show, an anthology called *Chevron Theatre*."

MCA had simply employed the same tactic it used with James Pe-

trillo and the AFM to begin its fast rise in the band-booking business and in radio production—with the same result. And like the MCA-AFM blanket waiver, the MCA-SAG blanket waiver was exclusive; other agencies could not get it. Among those who complained the loudest was the William Morris Agency, which represented Sophia Loren, Deborah Kerr, Kim Novak, Natalie Wood, Jack Lemmon, and Steve McQueen. Herbert Siegel, chairman of the General Artists Corporation, screamed, "I've never run across anything like this in all my years in the business. MCA and we are playing in the same ball game, but there is one set of rules for them and quite a different set of rules for everyone else."

The Justice Department's Antitrust Division later reported, "The MCA-SAG arrangements, in effect, have placed MCA in a highly favorable competitive position over other talent agencies and television producers. It alone has been in a position to use its unique dual position as a lever to induce talent to be represented by it and to use such talent in its own television productions. This has served to restrain the competitive efforts of other talent agencies and television film producers."

An FBI report also charged that "any blanket waiver granted to MCA would give MCA a competitive advantage in that they have available to them increased job opportunities and, therefore, have more to offer in this respect to their prospective clients." The FBI also insisted that the waiver would "have the effect of deterring any MCA client from discharging MCA."

The Justice Department later received information that "until the granting of the blanket waiver, MCA... was merely another competitor. But with the granting of the waiver, the battle took on a one-sided aspect. Since MCA had the right to make as many television shows as it wanted, it could always guarantee talent work in television. Therefore, the talent left the other talent agencies in droves. Moreover, MCA got not only a huge new pool of talent but the right to use it in television shows. This increased the salability of the television shows, and more and more production resulted. The central fact of MCA's whole rise to power was undoubtedly the blanket waiver. This gave it the real jet-speed boost."

But, as with the AFM waiver and the relationship between Petrillo and Jules Stein, rumors circulated around Hollywood about the SAG waiver and a possible deal between Reagan and Wasserman. Actor Dana Andrews, who later became president of SAG, said, "Ronald Reagan's a very affable fellow. Of course, it's a lot of bullshit, but it works. I don't think he's a vicious man, but I think if it would get him

a job, he would kiss ass anytime. But he'd do it pleasantly. He's always looking out for himself. . . .

"Being president of SAG doesn't mean you can make deals, but you do have more influence. I was in the Guild in 1952, but I wasn't on the board when SAG gave MCA the waiver to produce for television.

... I remember that the government man was looking into that, and he wanted to know if I knew if a secret deal had been made. ... He said that he was going to continue to look into it. Later, he told me that there had been no proof that there had been such an arrangement. And if there was such a thing, I didn't know about it. . . .

"But I'll tell you one thing, Lew Wasserman . . . gets what he wants, one way or the other. He had enemies all over town, and he still does. But people respect him because he has power." 10

When Wasserman was asked whether a secret deal had been made with Reagan, the MCA president replied, "That's outrageous. It's absolutely untrue. . . . Did we bribe anyone? My answer is no!"

A federal law-enforcement officer, who was well-acquainted with Hollywood during the early 1950s, said, "If there was a secret deal between a major production company and a labor union, there was one man they'd go to to cut it: Sidney Korshak." Although he admitted that he had only heard rumors about Korshak's possible role in the MCA-SAG blanket waiver, he insisted that "Korshak was all over the place back then, doing his work for the Chicago mob."

Korshak's name did crop up in a Hollywood investigation at about the same time as the MCA-SAG arrangement and the 1952 purchase of Universal Pictures by Decca Records. A group of investors had made a \$7 million-plus bid to purchase the RKO Pictures Corporation from Howard Hughes. Hughes had earlier owned a movie company, the Caddo Corporation, which was responsible for such films as *The Racket, Hell's Angels*, and *Scarface*. Hughes had developed a fascination for gangsters and their life styles.

Among the new RKO investors were Ralph E. Stolkin, a thirty-four-year-old Chicago millionaire; his father-in-law and partner in his mail-order business, Abraham Leonard Koolish; and Ray Ryan, a wealthy oilman.

A key player in the negotiations was Korshak, who initially introduced Stolkin to Arnold Grant, a young attorney who—if the deal went through—was to succeed Hughes's business associate, Noah Dietrich, as RKO's chairman of the board. Korshak was slated to handle RKO's labor problems.

On October 16, 1952, soon after the RKO purchase was announced,

The Wall Street Journal carried a detailed story about it, as well as its new owners, charging that Stolkin, Koolish, and Ryan had all been involved with "organized crime, fraudulent mail-order schemes, and big-time gambling." Stolkin had been connected to the distribution of punchboards, "a yokel gambling device"; Koolish was linked to "an Illinois insurance fraud scheme"; and Ryan, it was discovered, was a heavy gambler and a business partner of New York Mafia boss Frank Costello. The report also described Korshak as the "catalytic agent" for the deal.

Within days after the *Journal*'s series, the RKO purchase deal collapsed, and Korshak resigned as the studio's labor lawyer. "Temporary" control of RKO was later given back to Hughes,\* who kept the Stolkin group's \$1.5 million down payment.

A former Hughes employee said, "Howard Hughes knew the kind of people he was dealing with; he always did. He knew their backgrounds, and he knew their associations. That was the way he operated. In the case of the Stolkin group, he took their down payment and then waited. At the right time, he leaked the story to the press."

<sup>\*</sup>On July 18, 1955, Hughes—the first person to be the sole owner of a major motion picture company—sold RKO and all of its remaining properties for \$25 million to Thomas F. O'Neil, the heir to the General Tire and Rubber Company in Akron, Ohio. Hughes had made a final profit of \$6.5 million.



AT THE JUSTICE DEPARTMENT, there was deep and open suspicion that there had been some sort of illegal tie-in—or even a payoff—between MCA and Reagan in return for the MCA-SAG blanket waiver. As Justice Department records noted, "It was thought . . . that SAG might have purposely favored MCA for some illegal consideration." Although it may never be proven that Reagan or any other SAG official pushed through the SAG special arrangement with MCA and then received a suitcase filled with cash, it is clear that, within months of the deal, Reagan benefited personally, financially, professionally, and politically from his relationship with MCA.

Ronald Reagan had been faced with mounting debts, including a large back-tax assessment from the Internal Revenue Service. On March 4, 1952, Reagan married Nancy Davis. Her career was quickly put on hold when she became pregnant. Reagan was worried about mortgage payments on the 290 acres of rocky but scenic property in Malibu Canyon that he had purchased in 1951, using Yearling Row as a down payment. Reagan had paid \$85,000, or about \$293 per acre, for property that was situated on the corner of Mulholland Drive and Cornell Road in Agoura, California, outside of Los Angeles. Furthermore, the Reagans had purchased a three-bedroom, ranch-style home

—where they spent most of their time—in Pacific Palisades, a beautiful area near the ocean between Santa Monica and Malibu.

In 1953, the forty-three-year-old Reagan turned for help to MCA president Lew Wasserman and Arthur Park, whom Wasserman had hand-picked as Reagan's new day-to-day agent. A one-time musician and tennis pro, Park had been hired for seventy-five dollars a week by Taft Schreiber in 1936 and became an MCA vice-president eleven years later. Among his other clients at MCA was Reagan's ex-wife, Jane Wyman.

Speaking of the differences between Reagan's two wives, Park said, "The styles of Jane and Nancy are totally different. I had to continue handling Jane and Ronnie when they were divorced, and I must say one thing for Jane Wyman—I never heard her criticize Ronald Reagan ever. And I don't remember Ronald Reagan saying anything downgrading Jane, either.

"But Nancy's a very ambitious woman—just take it from there. Ambitious women do anything to meet their ends. It's obvious. She's been promoting Ronald Reagan's activities politically from the time she married him. . . . Jane and Ronnie were really two separate entities. Nancy, as an actress, really didn't get anyplace, let's face it. She had ambitions, but when she married Ronnie, she backed off. So she was never in competition with him. She always played her part, happily and well, as his wife."

Reagan refused to perform on television, fearing overexposure, or in a risky stage production on Broadway, so he, along with Wasserman and Park, decided to give Las Vegas a try. If nothing else, Reagan would be sure to make some big money. For two weeks' work in Vegas, he could make as much as he had for his last movie.

Through MCA, he signed a contract with Beldon Katleman, the owner of the El Rancho Vegas hotel/casino in Las Vegas. Reagan had known Katleman—a Los Angeles-based parking-lot mogul who was the nephew-in-law of Columbia's Harry Cohn and a close, personal friend of Sidney Korshak—from the Friars Club, which had held a testimonial dinner in Reagan's honor in 1950. Reagan was assigned to emcee a low-budget nightclub act that would be featured in Katleman's showroom. As the master of ceremonies, Reagan was to tell jokes, dance, and sing, as well as introduce the other performers.

"Art Park phoned to say Beldon wanted to move our date up to Christmas," Reagan said. "I needed the booking and certainly the money, but something inside me rebelled at the idea of hearing 'Silent Night' in Las Vegas—and we said no. [Katleman's] next call was a

demand that I appear as master of ceremonies at one of his regularly scheduled shows, and the show he had picked headlined a stripper. I'm sure the stripper\* was a nice girl—the kind you might even take home to Mama—but try as I would, I couldn't come up with an idea of how we could work together, in front of people. . . . The El Rancho [deal] ended up a mutual cancellation."<sup>2</sup>

Twenty minutes after the El Rancho deal fell through, Reagan was booked into the Last Frontier hotel/casino for two weeks, February 14–28, 1954—where Johnny Roselli was on the payroll as a "public relations consultant." Reagan served as emcee for a show featuring several comedy, song, and dance teams, including the Continentals, the Honey Brothers, the Blackburn Twins, and the Adorabelles.

After the engagement, Reagan recalled, "We had a wonderfully successful two weeks, with a sellout every night and offers from the Waldorf in New York and top clubs from Miami to Chicago. It was a great experience to have and remember, but two weeks were enough. Nancy was with me and sat through every show, and when it was over we couldn't wait to get back to the Palisades. . . . When we were back home, we thought of it as just so many more weeks we'd bought that we could hold out in our waiting game."

Returning to Hollywood, the unemployed Reagan was saved once again by his friends at MCA. The vehicle, this time, would be network television.

In one of MCA's first deals to produce television programs, Wasserman had obtained an agreement with the General Electric Company to sponsor an anthology series of weekly, half-hour dramas, General Electric Theater. The show was the "flagship" program of MCA's new entry into the production business, made possible by the 1952 SAG waiver. GE Theater premiered on February 1, 1953, alternating on a week-to-week basis with The Fred Waring Show, a musical variety show. After five years on the air, the Waring program broadcast its last show on May 30, 1954.

Consequently, General Electric made plans to buy a weekly show, and Wasserman offered to give the company an established star to be the host and to represent GE's corporate image.

The actual pitch to GE had come from Ben Duffy, an executive at

<sup>\*</sup>Despite Reagan's insistence that he not be seen with strippers, he was later photographed inside the showroom at Katleman's El Rancho Vegas. Caught unaware, Reagan was sitting at a crowded table in the audience, directly under a trapeze, during the bawdy act of Lili St. Cyr, the most famous stripper of that era in Hollywood and Las Vegas. A smiling Reagan, apparently thoroughly enjoying himself, was captured in the picture as he watched the sexy St. Cyr slip out of her scant costume from the trapeze.

the Batten, Barton, Durstine and Osborn advertising agency and a close friend of Taft Schreiber's. BBD&O had done extensive business with MCA for years and had been the Republican National Committee's advertising firm since 1952. BBD&O also represented United States Steel, DuPont, Revlon, and the American Tobacco Company, and later became responsible for finding sponsors for *The \$64,000 Question*.

Schreiber went right to Reagan—who no longer feared television overexposure as much as unemployment. "When Schreiber wanted to give Ronnie a proper test for the new GE Theater," according to one report, "he simply gave him the lead in an episode of another MCA-produced television series, Medallion Theater. After the live program was finished, Henry Denker, the co-producer, remembered that 'the cameras were kept running while two MCA guys got Reagan up against a gray background. They filmed an opening, middle break and closing as if he were host on a series."

Wasserman offered Reagan the job as host, program supervisor, and occasional star of MCA's GE Theater. The deal called for Reagan to receive a large salary from GE of \$125,000 a year, or \$2,500 per show, plus a generous expense account. Art Park later said that MCA's Revue Productions, the show's producer, had also paid Reagan "a very fancy sum," but this amount was never disclosed. Over the next five years, Reagan's salary graduated to \$169,000 a year, and GE also later installed a \$5,000 all-electric kitchen in Reagan's home.

Arthur Park recalled, "I was sitting on pins and needles because this was a hell of a contract. Not only did MCA have Reagan on GE Theater as a performer, but we also produced the show. So it was a very, very large commission for our company."

Reagan did not need long to decide whether to take the job. "The real extra, however, and the one that had drawn me into the picture," Reagan said, "was MCA's idea to hang the package on some personal appearance tours, in which for a number of weeks each year I'd visit GE plants, meeting employees and taking part in their extensive Employee and Community Relations Program. I had been tagged because of my experience in the Guild and the speaking I'd done in the industry's behalf along the 'mashed potato' circuit."

Appearing in the prime-time, 9:00-9:30 P.M. Sunday slot on CBS, immediately after the MCA-represented *Ed Sullivan Show*, Reagan finally became an established star.\*

Even though he was no longer the president of the Screen Actors

<sup>\*</sup>Reagan also continued his career as a free-lance motion picture actor, making two movies for RKO in 1954: Cattle Queen of Montana and Tennessee's Partner.

Guild, Reagan continued to serve on its board while his wife. Nancy. also remained an active board member. During the spring of 1954, SAG completed negotiations amending a 1949 agreement with the Artists' Managers Guild, which represented SAG members' talent agents, including MCA, in both motion pictures and television. Prior to the original agreement and as a result of a 1937 law passed by the California State Legislature, the permissible duration of an agent/actor contract was seven years, with no escape clause as long as the actor received one day of work every four months. Under the 1949 agreement, the agent/ actor contract lasted one year if it was a first contract and three years if the contract was being renewed. An actor could fire an agent if he did not receive a minimum of fifteen days of work every ninety days or if the agent had a conflict of interest in representing the actor. The SAG-AMG contract stated that agencies representing SAG members would have to apply and pay one hundred dollars or more simply for an agency "franchise" from the SAG board, as well as a permit from the state.

The 1954 agreement also prohibited talent agencies from producing television shows without a limited SAG-approved waiver—except MCA, which had received its blanket waiver in 1952. After 1954, several agents requested production rights and were granted limited waivers, such as the Saphier Agency, Ashley-Steiner, Art Rush, the Tom Somlyo Agency, GAC, the Mitchell J. Hamilburg Agency, Orsatti and Company, Famous Artists, the Lester Salkow Agency, Jerome Hellman Associates, Frank Cooper, and the John Gibbs Agency. However, none of these agents or agencies received an MCA-type waiver.

In April 1953, Lew Wasserman and Karl Kramer had requested and received a pro forma, nonexclusive waiver from the Screen Writers Guild in a letter signed by its then-president, Richard L. Green. Laurence Beilenson, MCA's counsel, had previously represented the Screen Writers Guild as well as SAG. MCA never approached the Directors Guild for such a waiver.

As a result of its blanket waivers, MCA literally began to take over the entertainment industry. In 1954, the first year that MCA published its financial records, the company reported a sizable \$6 million profit from its MCA Artists, Inc. By comparison, MCA's profit from its television and film production and rentals had already soared to an additional \$15 million annually.

The Justice Department's Antitrust Division in Los Angeles had continued to observe the MCA situation, but still it received no support from official Washington.

In 1954, Justice Department attorney Maurice Silverman conducted a lengthy interview with a source from Hollywood about the new phase of MCA's "package deals." The source indicated that he would be "a dead duck" if it became known that he was cooperating with the Justice Department. The source, according to Silverman's report, stated that: "MCA has a representative stationed at every studio. [It] acquires information about the stories of pictures scheduled for production, the casts required, and the directors needed. If artists they represent are engaged for a picture they inquire about the director. If a director is proposed whom they do not represent they indicate that their artists are not going to like that director and in the end one of MCA's directors gets the job. This technique is repeated with respect to the writers needed. This, of course, makes it advantageous for directors and writers to be represented by them rather than by other agencies and furthers the preservation of their dominant position."

The source added that all producers were "at MCA's mercy. . . . Impasses are always developing between MCA and producers at crucial times of which MCA takes full advantage. . . . It takes many weeks of preparation to get a picture ready for actual shooting. The scenery and costumes are made up, the location is gotten ready, and the sets are put in place. Commitments are made for cameramen, personnel, and directors. When shooting time comes any delays are enormously expensive: each day's shooting time [costs] many thousands of dollars. Just as everything [is ready] to begin the actual shooting MCA is in the habit of asking for changes in contractual arrangements made for the services of the people it represents. It has the power to call its artists off and because all producers must depend to a very great extent on MCA for talent . . . it can force such changes. Although this is true with respect to both the major studios and the independent producers, the independent producer is at a very much greater disadvantage, for the major studios have some talent directly under contract to it for a definite period of time. However, the tendency in recent years has been for the major studios to have fewer and fewer contract players as this cuts down their overhead."8

Assistant U.S. Attorney General Stanley N. Barnes, replying to Silverman's report, advised that the matter "be kept highly confidential."

In an important antitrust case involving the producing, booking, and presenting of legitimate stage attractions in interstate commerce, the U.S. Supreme Court ruled on February 14, 1955, in *U.S. v. Shubert*, that antitrust laws were applicable to these business activities. During the case, the defendants—several New York theatre owners—tried to

make a distinction between the interstate distribution of film and the interstate distribution of "live entertainment." In the majority opinion, Chief Justice Earl Warren, ruling against this contention, wrote: "The defendants seek to distinguish the motion picture cases [U.S. v. Paramount] on the ground that the product of the motion picture industry is 'an article of trade . . . an inanimate thing—a reel of photograph film in a metal box—which moves into interstate commerce like any other manufactured product'; on the other hand, according to this argument, a legitimate theatrical attraction is 'intangible and evanescent, unique and individual . . . an experience of living people. . . .' Congress can regulate traffic though it consists of intangibles." Warren added that the matter was "clear beyond question that the allegations of the government's complaint bring the defendants within the scope of the Sherman [Antitrust] Act even though the actual performance of a legitimate stage attraction 'is, of course, a local affair.'"

Blaming the producers for allowing the agencies to get away "with murder," Indiana theatre operator Roy L. Kalver, in delivering his keynote address to the national convention of theatre operators in November 1956, said: "Don't the producers have the courage to strike back with vigor and not resort to shabby and shameful actions of a few years ago when they swooned supinely when threatened by the beetle-browed Mr. Bioff and the [mendacious] Mr. Browne . . .? It is evident that the producers have created their own monster which is threatening to devour them. When television first threw them into a panic, one of their first moves was the elimination of their contract players, their own reserve of players and artists, both for the present and the future. Today they are almost completely dependent on these talent agencies and not only are they desperate for personalities for the current needs, but are without the means to develop new talent, the new faces, the stars that our industry so greatly depends upon for its continuation." 10

Inspired by the Supreme Court decision, Senator Warren Magnuson sent a letter to U.S. Attorney General William P. Rogers, complaining that the Justice Department's Antitrust Division in Washington had failed to do anything with "a stack of information about the monopolistic practices of a handful of companies which included the networks that have already put out of business more than two-thirds of the TV producers." Rogers immediately forwarded Magnuson's letter to the Justice Department's Antitrust Division, where it was assigned in March 1955 to Bernard M. Hollander for a status report.

Completing his survey, Hollander noted that Magnuson's "stack of information" consisted "entirely of clippings from Variety, Broadcast-

ing, Billboard, and other trade papers." Hollander added that MCA, the principal alleged antitrust violator, was being watched closely by the Antitrust Division. He also mentioned that a young attorney named Leonard Posner had been assigned to the case on a part-time basis.<sup>11</sup>

Two months later, the Screen Actors Guild came under investigation by the Antitrust Division. The probe was touched off by a complaint from an irate agent who challenged the legality of the 1954 SAG-Artists' Managers Guild agreement, which stated that talent agencies representing SAG members had to apply for and pay \$100 or more for a "franchise" from the SAG board. The letter was sent to attorney Stanley Disney, of the Los Angeles office of the Antitrust Division, who later stated, "I believe the arrangement violates the antitrust laws of the United States. . . . Even without proof that the SAG has misused the power that this restriction gives it, I believe the restriction illegal. The SAG, including as it does virtually all screen actors, does not have the right to establish a 'white list' of agents with whom its members can deal, when the right of being entered upon such list is controlled by the SAG."<sup>12</sup>

Disney's boss, James M. McGrath, consented to a "limited preliminary investigation" four days after Disney's request.<sup>13</sup>

The following day, May 18, Herman D. Hover—the owner of Ciro's in Hollywood, who had had trouble with MCA in the past\*—filed a triple-damages, \$1.7 million antitrust suit against the talent agency/production company, charging that he had lost \$526,500 because "MCA defendants failed to permit name acts to be booked into Ciro's, and as a result Ciro's was forced to operate without name acts. . . ."

Using most of the arguments about MCA's tactics cited by Larry Finley in his suit against the corporation, Hover added, "The MCA defendants have employed or are employing the combined power which they have, arising from their control of the booking of name acts, name bands, name singers, top producers, directors and writers, together with the predominant position in the field of packaging deals for motion pictures, filmed and live television presentations, stage and floor shows for theatres, hotels, cafés, nightclubs and other entertainment outlets, their predominant position in the distribution of films for television and their position in television production, together with their position of exclusive booker of entertainment attractions into numerous hotel, café

<sup>\*</sup>In April 1950, five nightclubs in Pittsburgh agreed to boycott MCA after one of the clubs refused to succumb to MCA's demands to accept a lesser-known band in return for the chance of a biggername band at a later date. Hover and Ciro's joined the protest. That June, MCA and the six nightclubs settled their dispute—after the clubs promised to request MCA clients and MCA promised to be fair.

and nightclub entertainment outlets, to force and coerce name acts, name bands, name singers and other entertainment attractions to make an MCA defendant their exclusive representative and agent."14

In his brief to the court, Hover's attorney, pointing to the recent Supreme Court decision in the *Shubert* case, wrote, "The correctness of Chief Judge McCormick's ruling in the *Finley* [v. MCA] case has, of course, now been completely vindicated. . . ."15

The case was later settled, with the terms undisclosed.

MCA's General Electric Theater had become a big hit among television viewers in America. Already among the top twenty shows in the Nielsen ratings during the first year with Reagan as its host, the program had featured the television debuts of such stars as Joseph Cotten, Alan Ladd, Fred MacMurray, James Stewart, and Myrna Loy, among others.

Continuing on the SAG board of directors, with his wife still a board member, Reagan decided to broaden his experience by becoming a producer for *GE Theater*. According to SAG's by-laws, any SAG member who was also a producer was ineligible to be a member of the SAG board. In fact, Reagan had become president of SAG in 1947 when Robert Montgomery was forced to resign because of his activities as a producer.

Reagan's first production for General Electric in 1955 was Seeds of Hate, a drama concerning racial prejudice against American Indians in the Old West. Written by Gerald Drayson Adams and directed by Sydney Lanfield, both MCA clients, Seeds of Hate starred Charlton Heston, Steve Cochran, and Diana Douglas, who were also represented by MCA.

Reagan was so thrilled by his new role that he wrote a brief op-ed piece—which dealt with politics as much as television production—for the twenty-fifth anniversary issue of *The Hollywood Reporter*, saying, in part: "I have for the past months been . . . combining television and motion pictures chores. This manifold job has taught me one thing for sure: never again will I allow myself to get into a position where I must make a choice between a seat in Congress and a comfortable position in the arms of my leading lady.

"Actors are citizens and should exert those rights by speaking their minds, but an actor's first duty is to his profession. Hence, you can rest assured that I will never again run for mayor of anything but head man in my own household.

"You may remember a few seasons back when I was honorary mayor

of Thousand Oaks. . . . It was then that someone seriously approached me with the suggestion that I run for Congress.

"That proved to be the last straw!

"I realized then that I was becoming a Dr. Jekyll and Mr. Hyde, and the two characters were competing to control me. I selected the Jekyll character—an actor without self-competition. . . .

"Now I am getting the biggest chance of my entire career. My General Electric Theater bosses have permitted me to produce Seeds of Hate for their series. It's an exciting challenge and I'll have a chance to blame only myself if it doesn't pan out. At least I won't be able to do what many producers are prone to do—blame the cast if the picture fails to pan out." <sup>16</sup>

At the time, Reagan was technically an employee of Batten, Barton, Durstine and Osborn, *GE Theater*'s advertising agency. Filmed at the studios of Revue Productions, *Seeds of Hate* went into production on September 29, 1955, for three days, after two days of rehearsals, and was aired on December 11.<sup>17</sup>

Even when the program aired—and Variety announced that Reagan had produced the program—no one from the SAG membership challenged Reagan's eligibility to remain on the SAG board.



DURING THE EARLY 1950s, Sidney Korshak purchased \$25,000 worth of stock in the Union Casualty Company of New York, owned and operated by Chicago labor racketeer Paul "Red" Dorfman, who had been the head of the Chicago Wastehandlers Union, and his stepson, Allen M. Dorfman. A few years earlier, Union Casualty had become the insurance company for the Teamsters Central States Health and Welfare Fund by decree of then-Teamsters international vice-president James R. Hoffa of Detroit. Allen Dorfman, who had had no previous experience in the insurance business, was appointed its manager.

During the first eight years of fiduciary management by Union Casualty, the Dorfmans made more than \$3 million in commissions and service fees. In one instance, Allen Dorfman took \$51,462 in premiums and simply deposited it in a special account he had opened with his mother. There were no complaints from Hoffa and the Teamsters.

An FBI intelligence report stated that "the labor racket's web had as its center Sidney Korshak and around him were Murray Humphreys, Gus Alex, Joey Glimco, and Jake Arvey" as well as three local attorneys.

Alex had been Korshak's long-time friend. Humphreys, nicknamed "The Camel," was identified as one of the top leaders of the Chicago mob. Glimco, a corrupt trustee of Chicago Cabdrivers Local 777 and a close friend of Hoffa, had been arrested thirty-six times—twice for murder. Arvey was a member of the National Democratic Committee and had allegedly been introduced by Korshak to associates of New York Mafia don Frank Costello in New Orleans.\*

Korshak had also moved into the band-booking business. The listed owner of the Associate Booking Corporation was Joseph G. Glaser, who represented, among others, Louis Armstrong. In its 1946 request for an FBI investigation, the Justice Department's Antitrust Division in Los Angeles wrote a memorandum to Washington, suggesting a probe into the close ties between Associated Booking and MCA. According to a subsequent FBI report unrelated to the MCA investigation, "A rundown of the corporation does not reveal [Korshak's] name; however, he is reported to be a principal in the Associated Booking Corp., who are booking agents for many of the top entertainers and orchestras. This corporation has offices at 445 Park Avenue, New York City, with branches in Chicago, Beverly Hills, Miami, Dallas, and Las Vegas. This puts him close to many of the top Hollywood set."

Korshak and his associates in Paul and Allen Dorfman's Union Casualty Insurance Company experienced another windfall in 1955, during union-management negotiations for the 1955 National Master Freight Agreement. Jimmy Hoffa, the chairman of the Central Conference of Teamsters, introduced an innovation in workmen's benefits: the pension fund. According to Hoffa's plan, employers under Teamster contracts would contribute two dollars per week per employee to the Central States, Southeast, and Southwest Areas Pension Fund. Intended to provide a ninety-dollar-a-month pension to supplement Social Security benefits for eligible union members, Hoffa's Central States Pension Fund was placed in the care of Korshak's friend, Allen Dorfman, who had already been stealing money from the Central States Health and Welfare Fund.

According to FBI documents, Korshak "had been doing work for Hoffa and the Teamsters" at the time of the creation of the Central States Pension Fund. The nature of the work was unknown. However,

<sup>\*</sup>On August 8, 1954, long-time Korshak associate Charles "Cherry Nose" Gioe was machinegunned to death, and his body was stuffed into the trunk of a car. The police had no clues. Just the previous month, according to the FBI, Gioe had allegedly asked Korshak to make arrangements for the naturalization of Paul Ricca, another member of the Chicago mob convicted in the Bioff-Browne-Schenck Hollywood scandal. Ricca was another close associate of Hoffa's.

it was known that Korshak and "labor consultant" Nate Shefferman\* had been negotiating contracts together between the Teamsters Union and the Englander Corporation, a large furniture manufacturer. According to federal investigators, these negotiations resulted in "sweetheart contracts," in which Englander made a covert arrangement with the negotiators at the expense of the workers' future salaries and benefits. Shefferman, alone, made over \$76,000 for his role in bargaining talks.

It is not known what Korshak—who rarely put anything in writing or appeared in court—thought about Willie Bioff after the Hollywood extortionist testified against his co-conspirators in 1943. In his testimony, Bioff cited Korshak's role with and importance to the Chicago Mafia. Korshak suddenly found himself in a spotlight at center stage. Bioff not only exposed Korshak but sent several members of the Chicago mob to jail. Bioff wisely dashed off somewhere after his court appearance and hid. He moved to Phoenix and assumed the name "William Nelson."

After spending a few anonymous years in Arizona, Bioff became friends with Gus Greenbaum, another Chicago hoodlum and bookmaker who was pals with Tony Accardo and Jake "Greasy Thumb" Guzik. After Bugsy Siegel was murdered in Las Vegas, Greenbaum had been tapped to be Siegel's successor as the manager of the Flamingo hotel/casino. Greenbaum was a success in the gambling business, making friends with his underworld bosses as well as a few other people in legitimate businesses. One of his political friends was Barry Goldwater, then a Phoenix city councilman, who was a frequent guest at the casino, along with Goldwater's brother, Robert, who had a reputation in Las Vegas as a high-roller.

After a series of illnesses, Greenbaum retired and returned to Arizona, where Goldwater, a Republican, had become a United States senator. While Greenbaum and Bioff were becoming fast friends, Bioff met Goldwater. Goldwater and Bioff were frequently seen together at a variety of social and political functions. Bioff gave Goldwater campaign contributions and accepted the use of Goldwater's private airplane on occasion when he needed to get somewhere quickly.

Meantime, Accardo and Guzik placed pressure on Greenbaum to

<sup>\*</sup>Nate Shefferman was the owner of the Chicago-based firm Labor Relations Associates, which the Sears, Roebuck Company and its subsidiaries employed for union-busting activities. Shefferman, like Korshak, was a close friend of both Hoffa and Teamsters president Dave Beck and "had received \$85,000 in union funds from Beck to purchase a variety of items for him wholesale."

return to Las Vegas to operate their new casino, the Riviera. Green-baum reluctantly accepted—after his sister-in-law was killed under mysterious circumstances—and took Bioff along with him, naming him as the Riviera's entertainment director.

When Accardo heard that Greenbaum had hired Bioff in 1955, he dispatched Marshall Califano—a prime suspect in no less than ten syndicate murders—to protest Bioff's employment on behalf of the casino's "investors." Korshak was allegedly among those with a financial interest in the Riviera. Despite Califano's efforts, Greenbaum refused to fire Bioff.

Two weeks after Califano's visit, Bioff returned to Phoenix with Senator Goldwater in his private plane. On November 4, 1955, Bioff stepped into his car and turned on the ignition, detonating a bomb under the hood. He was killed instantly.

When Goldwater was asked why he had been hanging out with Bioff, he denied knowing that "William Nelson" was really Willie Bioff. When challenged on specifics, Goldwater retracted his initial story and said that he "was making a study of the labor movement, and that Bioff was helping him explore union racketeering."

Shortly after, Greenbaum and his wife were found dead in their home with their throats cut. Goldwater attended both Bioff's and the Greenbaums' funerals. The murders of Bioff and the Greenbaums have never been solved.

On January 30, 1957, the U.S. Senate Select Committee on Improper Activities in the Labor or Management Field was created. Chaired by John L. McClellan, an Arkansas Democrat, the committee consisted of four Democrats: McClellan, John Kennedy of Massachusetts, Sam Ervin of North Carolina, and Pat McNamara of Michigan; and four Republicans: vice chairman Irving Ives of New York, Joe McCarthy of Wisconsin, Karl E. Mundt of South Dakota, and Barry Goldwater of Arizona. Senator Kennedy's brother Robert Kennedy—who had convinced McClellan to do the investigation—was selected as the Senate Rackets Committee's chief counsel.

As with the Kefauver Committee, Sidney Korshak was the first among those associated with the Chicago underworld pursued by the McClellan Committee. Robert Kennedy and staff investigator Pierre Salinger visited Korshak at his office in Chicago and asked him questions about the sweetheart contracts he negotiated in concert with Nathan Shefferman and Labor Relations Associates, Inc. Of course,

Korshak denied any wrongdoing. Salinger, in his background report on Korshak to Kennedy, described him as having "a reputation of being extremely close to the old Capone syndicate."

On October 30, 1957, Korshak appeared before the full committee. The questioning of the witness was conducted entirely by Robert Kennedy. Aside from the Shefferman arrangement, Kennedy asked Korshak about a labor dispute he had settled for Max Factor, the Hollywood-based cosmetic company. The union organizer during the campaign was Michael Katz, who had identified himself during his appearance before the committee as an organizer for Processing Fabricators Union Local 802 and "a communist exterminator."

"I believe I was in the Friars Club in California," Korshak explained. "I received a telephone call from Mr. Katz. He met me in front of the place. He told me that he was organizing the company, and that he was having difficulty getting together with management. He understood that one of the Factors was from Chicago. He asked if I would arrange a meeting with management."

"Which Factor was that?" Kennedy asked.

"This was a Mr. John Factor ["Jake the Barber"]. Mr. John Factor was in the club at this particular time. I asked Mr. Katz to wait. I walked in and told Mr. Factor what I had just learned from Mr. Katz. Mr. Factor said that the only one that he knew at the plant was his half-brother, and that he was in Europe at the time, so he couldn't or wouldn't talk to anyone else. I went out and communicated that to Mr. Katz. . . ."

"As a matter of interest, is he the one who was kidnapped by [Chicago mobster and Capone nemesis] Roger Touhy?"

"That is correct. . . ."

"What was his half-brother's name?"

"I believe that would be Max Factor."

Korshak said that he could not recall having anything further to do with the matter, even after Kennedy confronted him with his own telephone toll-call records, showing an eighteen-minute, nine-second call from Korshak to Katz.

"A great deal of my business is transacted on the telephone," Korshak replied. "I would be hazarding a guess if I said other than I can't recall. Was that telephone call, Mr. Kennedy, around the same time that the Max Factor Company was being organized?"

"That is correct," Kennedy responded.

"Then if I guessed, I would say that I called him to tell him—he may have tried to reach me. He may have wired me, or attempted to reach me. I may have been returning the call. I am sure that it would have to do with the Max Factor Company. I am sure that I would have told him that I have no interest whatsoever in the Max Factor Company, and that John Factor wasn't interested in the Max Factor Company."

Sidney Korshak had become closer to Chicago mobster Gus Alex. The two men had become business partners in several ventures. Alex had applied for a Chicago apartment and used Korshak as a personal reference. Korshak, according to the files of the Lake Shore Management Company, described Alex as "a man of excellent financial responsibility whom he could recommend as an excellent tenant."

Their wives, Bernice Korshak and Marianne (Ryan) Alex, were inseparable friends. A confidential FBI report stated that in 1958, "Gus Alex had moved up to an important position in the crime syndicate of Chicago. . . . Sidney Korshak, well-known Chicago attorney, was the person who advised top racketeers in Chicago insofar as their legitimate enterprises were concerned. . . . Gus Alex was the hoodlum closest to Korshak and . . . this was the basis for the belief that Alex had moved into a high echelon of the syndicate."

During the spring of 1958, Gus Alex disappeared—after he had been subpoenaed to testify before the McClellan Committee. While U.S. marshals searched for Alex, Korshak provided Alex with a temporary home in Palm Springs, as well as the use of his automobile. Soon after, the Chicago FBI went to Korshak and asked him what he knew. "Korshak advised that he did not represent Alex as an attorney but through his wife, Bernice's, friendship with Alex's wife, he knows Alex as well . . . ," the FBI report of the interview stated. "At that time Korshak indicated that he would attempt to get word to Alex that he should accept the subpoena. In July 1958, when attempts were made [by the FBI] to contact Korshak's wife, Korshak contacted the Chicago Office [of the FBI] and advised that his wife was in California and was having dinner that night in Beverly Hills with Peter Lawford [John and Robert Kennedy's brother-in-lawl. . . . In July 1958, Alex was served with a subpoena in Chicago by a representative of the Senate Rackets Committee."8

When Alex appeared before the committee, he took the Fifth Amendment thirty-nine times, refusing to answer whether he had been Jake "Greasy Thumb" Guzik's bodyguard, whether he had been the Capone mob's top enforcer, whether he was involved in the Dome, a Chicago gambling casino, or even whether his sister was married to mobster Joey Glimco's brother.

With Senator McClellan's patience wearing thin, he chided Alex.

"You stated that you were an American citizen. Do you have enough love and respect for your country that you would in any way and to any degree cooperate with your government and those who are trying to preserve the very freedoms you exercise and now enjoy . . .?"

"Under the Fifth Amendment to the Constitution of the United States," Alex replied, "I decline to answer on the grounds that my answer may tend to incriminate me."



IN 1957, the Antitrust Division of the Justice Department once again became interested in possible litigation against MCA. On April 16, 1957, Walter K. Bennett of the division's Los Angeles office wrote a memorandum to Richard B. O'Donnell, chief of the New York office, stating: "It will be recalled that Music Corporation of America has been the subject of a number of complaints; the last one considered, according to our records, was dated February 8, 1954, and consisted of a charge by an independent motion picture producer who claimed that MCA had a monopoly on entertainment talent which it built up and maintains by predatory practices.

"... Previous inquiries conducted by this office indicate that MCA has bought out other agencies and that it has had artists under exclusive contract, as well as writers. Complaints by independent producers of motion picture and television shows suggest an attempt to monopolize these businesses. The claim has been made that MCA, with another agency, the William Morris Agency, controls at least seventy-five percent of the top writers, directors, and artists. Dependent on the results of . . . interviews in Boston, you may care to recommend that the investigation closed in 1954 be reopened."

Nine days later, Leonard Posner, a government antitrust attorney

who had been working part-time on the case, assumed the role of point man in the day-to-day preliminary investigation. Posner's initial probe was two-pronged; he wanted to investigate both MCA and the William Morris Agency, both of which represented artists as well as packaged and distributed shows. A package for either a motion picture or television show could simply be an idea or a script. It would usually be generated by a writer. Sometimes it would be a joint effort of several artists with various talents or a unilaterally owned package. Occasionally, a package could be a finished film.

When a talent agent received a package, it usually required at least a final editing or, at most, the selection of the right studio, a budget, insurance, the necessary copyrights, financing, and the physical production of the program.

MCA would receive a ten-percent commission on the sale of the package from first exhibition over a national television network; twenty percent from any network rerun; thirty percent for runs on regional networks; forty percent for runs on local television stations; and fifty percent for foreign distribution.<sup>1</sup>

Posner's interest in MCA was greater because, unlike William Morris, MCA was involved in production. Although William Morris packaged programs for such production companies as Four Star, Lou Edelman, Sheldon Leonard, and Danny Thomas, the agency only took its ten-percent commission from those individual artists they packaged.

The focus of Posner's investigation was the "tie-in" device by which a producer was forced to take an entire package rather than selected individuals. "If scripts are copyrighted (as they probably are)," Posner wrote, "the 'tie-in' may well be a 'per se' violation of the antitrust laws. Even when there is no copyright involved, the argument could be made that both scripts and performers . . . are highly unique and, in effect, represent monopolies. Even assuming that monopoly is not involved, the restraints may be unreasonable."

In February 1958, MCA's subsidiary, Management Corporation of America, bought the television distribution rights to over 750 pre-1948 feature films from Paramount for a guaranteed \$35 million—\$10 million in cash and payments of \$2.1 million a year for twelve years. MCA agreed to pay Paramount as much as \$15 million if rentals exceeded \$51.25 million prior to 1974. At the time the deal was made, Stein was still Paramount's second largest stockholder.

Of the films purchased, sixty-four were "dogs" and were immediately dropped, and 430 were considered "C" pictures, defined as "poor" or "unsuitable." Since it would be difficult to find sponsors for these films,

they were primarily used for "fringe time" viewing, or for bargaining for the rest of the package.

MCA's intent was to sell television stations as many films as possible through its wholly-owned subsidiary, the EMKA Corporation. As in a catalogue, each film had a price and stations could order the films from any of dozens of MCA salesmen who would come calling. The cost of distributing these movies varied. If MCA was distributing numerous films simultaneously, its salesmen blanketed local television markets and offered a large selection of films at a lower price than a smaller distributor with fewer films. Consequently, smaller distributors had a higher distribution cost. If a station bought one movie at a time, it would have to decide whether it wanted to pay, for instance, \$5,000 for a lesser movie for five viewings over seven years or whether it would be better to purchase a better film, like the 1944 Academy Awardwinning production Going My Way, for \$5,000 for two runs over three years. As a general rule, the first station in a particular local market that offered to buy the entire film package would get it. Usually these stations would have to take the 430 "C" pictures in order to get the other "A" and "B" movies. This practice of "block-booking" had been outlawed by the U.S. Supreme Court in the Paramount case in 1948. MCA, in attempting to sell its newly acquired films, was accused of this practice.

Other companies had purchased other film companies' backlists. Screen Gems, for example, bought 998 pre-1948 and 372 post-1948 films from Columbia; and Seven Arts purchased fourteen pre-1948 and 326 post-1948 motion pictures from Warner Brothers and Twentieth Century—Fox in 1956. A year earlier, Desilu, a new production company formed by Desi Arnaz and Lucille Ball (*I Love Lucy* had begun in 1951), bought out the RKO studio and its entire backlist of 740 films. Desilu's vice-president for public affairs was former SAG president George Murphy.

MCA's acquisition of Paramount's film library prompted Assistant Attorney General Victor R. Hansen of the Antitrust Division to write Jules Stein a letter, saying in part, "While we do not mean to imply that such acquisition necessarily violates the antitrust laws, it does raise certain questions under those laws." Those questions revolved around the legality of MCA's multiple role as agent, producer, and, now, distributor. Hansen then asked for MCA to provide the federal government with all information pertaining to the sale.<sup>2</sup>

The FBI's routine public-records search with Dun and Bradstreet, the corporate financial analysts, yielded little. "This company," the

respected firm concluded, "is not actively engaged as a seeker of mercantile credit. However, it is reported to be prompt and satisfactory for payment of purchases on credit terms." Dun and Bradstreet also noted that MCA had "declined to release financial information, and financial statements have been obtained from industry sources."

Soon after the purchase of the Paramount film library, Charles Whittinghill, also of the Antitrust Division, requested the authority "to empanel a grand jury in the Southern District of New York to investigate possible violations of the Sherman Act arising out of alleged tie-in sales by NBC and CBS of network time and network-produced shows." Among the tie-ins Whittinghill hoped to investigate were those of MCA because of its "extremely close relationship with NBC, to which it supplies numerous 'live' properties."

A Justice Department document stated that "NBC is being completely 'snowed under' by CBS in the program ratings. . . . NBC's personnel are far inferior to CBS's in caliber and cannot turn out the quality product. Because of this, NBC is forced to rely on MCA's stable of stars and upon MCA's show production facilities. Hence, NBC sticks close to MCA and to MCA's 'Revue Productions.' "5

MCA's program packager was attorney and talent agent Henry Jaffee, who also represented Robert Sarnoff, the chairman of the board of NBC, and had previously represented former NBC president Sylvester "Pat" Weaver. Because of these relationships, Jaffee allegedly kept down the price of talent sold to NBC.

Further, there was a sweetheart relationship between MCA vice-president Sonny Werblin, who was in charge of television sales, and NBC vice-president Robert Kintner, who later became network president and stated during the spring of 1957 in the presence of Sarnoff and others, "Sonny, look at the [NBC] schedule for next season; here are the empty spots, you fill them in."

Werblin did so, rearranging the NBC prime-time schedule and replacing set programming while the NBC programmers watched with their hats in their hands. When the NBC programming bloodbath was completed, MCA had fourteen shows on the air—eight and a half hours of MCA-produced programs on prime-time television. Among MCA's programs were Wagon Train, Wells Fargo, and M Squad. However, the rest of the NBC-MCA schedule was filled with clinkers.

Kintner, a former newspaper columnist with recognized strengths as a news programmer, denied that the meeting ever took place. He may have had reason to do so. An ex-MCA agent told how Kintner became president of NBC. "They began with Manny Sacks," he explained. "He

was a former MCA man who moved over to Columbia Records. MCA took him out of Columbia and put him in at RCA [NBC's parent company]. Then they cultivated Kintner, who was head of ABC, and sold him to Sacks. They said, 'Listen, Manny, what you need as president of NBC is a man with vision, a Kintner, or somebody like him. You take him and we'll give you all our goodies."

Shortly after Kintner took over at NBC, he was invited to Lew Wasserman's "birthday party" in Hollywood. "On the night appointed," recalled an industry source, "Kintner came in his best bib and tucker, and there he found every big star on MCA's roster. . . .' In the midst of this glittering assemblage, Wasserman stood up and announced to the multitude, 'This is not a birthday party for Lew Wasserman. This happens to be a surprise party for my good and true friend Robert Kintner to celebrate his having taken over the throne at NBC.'"

In the midst of NBC's love affair with MCA, the William Morris Agency protested to the network, "We're being discriminated against; you're locking us out."

Former NBC president Pat Weaver, who had been responsible for the network's special programming and "spectaculars," said that to accept the fact that MCA had an exclusive deal with NBC in which the network was forced to take all of MCA's product, "one would have to assume either that Bobby Sarnoff was dumb or that Kintner is crooked." Weaver said that he could not believe either theory. Weaver contended that Kintner was a "newspaperman" and knew little about entertainment. When he went to his friend Sonny Werblin, he was talking to someone who did.<sup>10</sup>

Nevertheless, MCA's production income jumped from \$8.7 million in 1954 to a \$49,865,000 gross in 1957. MCA's talent agency, which had earnings of \$8.8 million in 1954, remained the same in 1957.\*

In 1957, William Morris reported its revenues to be \$41,371,000 and nearly \$4 million in commissions.†

Within MCA, business had become extremely competitive. According to an MCA agent, "We were supposed to be battling for commissions with the William Morris Agency, the General Artists

<sup>\*</sup>MCA's top television clients included Art Linkletter; Robert Cummings; Ozzie and Harriet Nelson and their sons, David and Ricky; Fred MacMurray; Donna Reed; Phil Silvers; George Gobel; Alfred Hitchcock; Jack Benny; George Burns; Betty Furness; and Ernie Kovacs and his wife, Edie Adams.

<sup>†</sup>William Morris's television and motion picture clients included Sammy Davis, Jr., Danny Kaye, Lloyd Bridges, Anita Ekberg, Jean Simmons, Barbara Stanwyck, Spencer Tracy, Melvyn Douglas, Glenn Ford, Barry Nelson, Laraine Day, and Frank Sinatra, who had left MCA in a huff.

Corporation, and other talent agencies, but I found that my most ruthless enemy was the man in the next office at MCA. I'd go to an advertising executive and sell him a TV show, and then a fellow MCA man would go to him and say, 'Why do you want to buy that piece of iunk? The show I represent would be much better for you.' We were pitted against each other by the nature of the agency, and it was like living in a snarling, cannibalistic, primitive society where your survival depended on your brutality and guile. We got comparatively small salaries plus a big Christmas bonus which we received at the end of the year. The bonus was based on what you had sold during the year to contribute to the profits of the company, and it could amount to as much as fifteen or twenty thousand dollars. Thus we were all out scrambling for the bonus, and if you had to assassinate one of your colleagues to up your bonus, you assassinated him. Spying, memostealing, eavesdropping were all common practice. Once I was talking to an executive at Metro-Goldwyn-Mayer about a deal. Two minutes later, I got a call from my superior at MCA, berating me about what I had said to the Metro man. He had the conversation almost verbatim. Later, I learned that my colleague in the next office had flattened himself against the wall outside my door and had listened to every word of my conversation with the MGM executive. Then he had reported it to my boss."11

Even Wasserman was beginning to feel the heat. During a meeting with CBS executives in New York, focusing on "a deal for purchasing Paramount pictures for all of CBS's O & O [owned and operated] stations, Wasserman called in from the West Coast and insisted that they break up the meeting, because he was afraid to do business with a station group as such. Merle Jones [a CBS executive] asked sarcastically, 'Is it all right if we stay for a cocktail?' The meeting took place in MCA's suite in the Hotel Pierre."

"You have to understand," explained a former top MCA executive. "We knew that the antitrust people in Washington and Los Angeles were starting to breathe down our necks. We were doing everything we could do to avoid antitrust problems. It was something we were sensitive to. Wasserman was aware of it, and he made sure we were, too."

After not receiving a reply to the government's request for detailed information about the Paramount backlist purchase, federal antitrust lawyer John Sirigano, Jr., requested on July 10, 1958, that the Federal Communications Commission supply the government with data on MCA filed by those television stations doing business with the firm.

"At about 4:30 P.M., August 5, 1958," Sirigano wrote in an internal

Justice Department memorandum, "I received a long-distance call from Mr. [Cyrus R.] Vance of Simpson, Thatcher of New York City, who stated that he was representing MCA and was aware of our request to the FCC and stated that MCA was perturbed over the possibility that confidential information regarding MCA operations might be available [to a competitor]."

Sirigano replied that the Justice Department was within the law requesting the information under the "Federal Reports Act," but that Vance and MCA would be better served to appeal directly to the FCC. "Mr. Vance stated that to avoid any controversy MCA would offer to supply us with any information relevant to their activities in film distribution on a voluntary basis if we would withdraw our request to the FCC to examine MCA reports. I stated that as a matter of policy we could not make an exception for MCA."

After the Sirigano-Vance conversation, MCA notified the FCC "that while it believed that disclosure by the FCC of material supplied by MCA to [the Justice Department] was unauthorized it was waiving any objection to such disclosure."<sup>13</sup>



ON NBC's popular, big-money quiz show, Twenty-One, contestants went head-to-head, answering questions in a variety of categories with degrees of difficulty ranging from a rating of one to eleven and trying to get a total score of twenty-one. Any contestant, for instance, answering a question with an eleven rating and a second with a ten rating was guaranteed a tie. To heighten the drama, as well as the visuals, contestants stood in isolation booths on stage. The winner from each show kept returning the following week until defeated by a challenger. Among the early winners was Herbert Stempel, who in 1958 enjoyed a long run on the show. Stempel's reign was ended by Charles Van Doren. After tying Stempel three times, Van Doren finally defeated him during the fourth week and became an overnight sensation in America. A year later, while Van Doren—who was then represented by MCA, as had been the producers of Twenty-One, Jack Barry and Dan Enright—was filling in on NBC's Today show for host David Garroway over the summer, Stempel charged that Twenty-One was fixed and that Van Doren had been given answers to questions in advance of the show.

In the wake of allegations against other quiz shows—NBC's Dotto, and CBS's The \$64,000 Challenge and The \$64,000 Question—a special

committee of the U.S. House of Representatives\* subpoenaed Van Doren. He confessed that he had been fed answers by a producer of the show, because the knowledgeable Stempel was too good and couldn't be beaten but had become unpopular with *Twenty-One*'s audience.

TV Guide later ran an editorial entitled "Now Is the Time for Action." In part, TV Guide stated: "Now that television's dirty quiz linen has been washed in public, it might not be amiss for the industry itself to clean out the rest of the hamper. Why wait for a few months until the quiz matter dies down and then be subjected to more headlines and investigations and public resentment on other dubious practices that could just as readily be aired and corrected now?

"Item: Talent agencies control—directly or indirectly—more than forty percent of nighttime network TV. With the networks so dependent upon MCA and William Morris and a few smaller talent agencies, it is possible for the agencies to sell them routine shows on the basis of special deals, talent tie-ins, or just a good 'in'. . .

"At the heart of the matter is the question of exactly who is to control the medium."

On December 16, 1958, MCA and Revue Productions purchased the run-down 367-acre backlot of Universal Pictures—which had been merged with Decca Records in February 1952—for \$11,250,000. The buildings on the property were of solid steel, brick, and stucco construction and included sixteen sound stages, as well as a variety of geographic and historical set designs. As part of the purchase agreement, Universal was to pay MCA \$1 million a year for ten years for leasing rights to the property. Previously, Revue had owned the one-acre lot at Republic Pictures, which had stopped producing films. MCA sold its Republic property for a reported \$9 million. Soon after the contract was signed, Universal received a glut of MCA-represented clients for its motion pictures. It was another incredible deal for MCA.

Wasserman authorized an enormous rehabilitation program for Revue's new home, ultimately costing \$110 million. "Very few companies in the industry had spent money on capital-improvement programs," Lew Wasserman said. "The theory had been 'don't spend any money you can't charge off to a film.' I'm not going to say we can walk on water, but we were defying conventional thinking."

<sup>\*</sup>Also, during 1950-60, Congress investigated the "payola" scandal in which deejays were accused of accepting bribes to play record companies' music. Actually, the deejays were scapegoats for a wider range of corruption in the industry. The payola scandal had its roots in the longstanding war between the American Society of Composers, Authors, and Publishers (ASCAP) and Broadcast Music, Inc. (BMI), which were competing for the lion's share of the recording market. (See Steve Chapple and Reebee Garofalo, Rock 'N' Roll Is Here to Pay.)

An industry source reflected that "MCA made a big mistake when it bought the Universal lot. When they did this they went into a different business. Thus MCA got away from its function of representing talent. Jules Stein always used to tell the MCA salesmen: 'Never forget that what we began with was representation of talent; that is our main function and it must remain so. . . .' MCA had forgotten this admonition of Stein's and [had] now made production its main function."

On January 8, 1959, the U.S. Justice Department finally authorized a full-field FBI investigation of MCA. The formalities were included in a letter from Assistant Attorney General Victor R. Hansen of the Antitrust Division in Washington, D.C., to FBI director J. Edgar Hoover. Hansen wrote that "MCA may be restraining trade (a) by refusing to book its artists in productions competing with those under MCA control, (b) by compelling producers to hire writers and directors in order to obtain [acting] talent, (c) by compelling producers to hire talent in order to obtain scripts, writers or directors, (d) by obtaining representation of talent through predatory practices, (e) by refusing to book talent at terms satisfactory to the talent but not to MCA (which practice may be accomplished by failing or omitting to inform talent of offers), or (f) by monopolizing the talent agency and the booking business."

Included in the letter to Hoover was another addressed to MCA, requesting "the examination of the books, records and files of the Music Corporation of America."

While Hoover and the FBI began their work, the Antitrust Division received information about the power MCA wielded during the casting of the Twentieth Century-Fox production of The Young Lions. According to an industry source, Marlon Brando, Montgomery Clift, Maximilian Schell, and Tony Randall had been slated for the leads of this World War II drama, based upon Irwin Shaw's best-selling epic novel. Directed by Edward Dmytryk, the only member of the Hollywood Ten who had recanted and named names before HUAC, in 1951, The Young Lions filming was delayed when MCA asked its producers to change a member of the cast for one of its clients. When Twentieth Century-Fox protested, MCA threatened to pull Brando and Clift, both MCA clients, out of the movie. The studio ultimately capitulated to MCA, removing Tony Randall from the cast and adding MCA's Dean Martin, who had just split up with his comedy partner, Jerry Lewis, and was looking for work.

MCA Artists was making a ten-percent commission from its clients; Revue Productions received twenty percent of its shows' profits from the networks; and MCA-TV, Ltd., the corporation's distribution company, received another ten percent for distributing MCA's film library. MCA took all of its fees off the top, leaving fewer dollars to be divided among program producers and stars who negotiated ownership interests in the shows they worked.

Although the William Morris Agency, as well as MCA, had been the subject of the federal investigation, the Antitrust Division backed off from William Morris and concentrated on MCA. According to a Justice Department memorandum, "William Morris, MCA Artists, Ltd.'s, principal competitor, deducts any fees the owner of the show must pay to a distributor for reruns before it computes the fee. . . . Some of the stars represented by William Morris own a certain percentage of the film for rerun purposes. In no case does William Morris take more than ten percent of the show's profit, as contrasted with . . . MCA."



During 1959, Sidney Korshak was still working with the Teamsters Union, and he and his brother Marshall were often seen with the president of the Teamsters Union, Jimmy Hoffa, who had been elected in 1957. Sidney had kept his clout in the labor movement and was known to have also been doing work for the United Steelworkers Union upon request of its president, of whom Korshak was a close friend. The Chicago attorney was representing the Hotel and Restaurant Workers and Bartenders Union Local 450 in Cicero, Illinois, as well as Chicago's liquor salesmen. According to a confidential IRS report, "Korshak is a man with many influential friends and can make peace in many disputes through his friendships in the fields of labor, management, and government."

In May 1959, the FBI received reliable information that Korshak had negotiated a contract between Chicago's Premium Beer Sales, Inc., and local Mafia boss Tony Accardo, in which Accardo was hired as a "salesman" and given a \$65,000-a-year salary.\* Korshak had appeared before a federal grand jury investigating the connection between Ac-

<sup>\*</sup>Accardo's daughter was a secretary in Korshak's Chicago law office.

cardo and Premium but "denied that he had drawn up the original contract between Premium and Accardo, stating that [an executive of Premium], whom he had known for many years, had contacted him and presented a contract, asking for Korshak's legal opinion as to whether it was a good contract or not. Korshak stated he studied the contract, suggested some revisions, and returned the contract. . ." Korshak added that he had been given five hundred dollars for his services.<sup>2</sup>

The FBI had also learned that Korshak and his brother Marshall were attorneys for American Distillers. American Distillers was also represented by Paul Ziffren, another Chicago attorney who was a close friend of both Korshak and Lew Wasserman.

Paul Ziffren was born in Davenport, Iowa, on July 18, 1913. He received both his undergraduate and law degrees at Northwestern University. He attended law school with a scholarship from the Pritzker Foundation. In 1938, he was admitted to the Illinois bar. His first job was in the office of the chief counsel for the IRS in Chicago. There Ziffren worked on the successful income tax evasion case against Moe Annenberg. He later became an assistant U.S. attorney and head of the tax division in the U.S. Attorney's office. On March 22, 1941, Ziffren resigned from government service and became a member of the law firm Gottlieb and Schwartz, specializing in corporate law.

Ziffren left Chicago and came to California in 1943, when he was thirty years old. In May 1944, he was admitted to the California bar and spent less than a year with a Los Angeles firm. He then opened a partnership—Schwartz, Ziffren, and Steinberg—in downtown Los Angeles while he simultaneously maintained a legal partnership with his political mentor, Jake Arvey, the mob-connected head of Chicago's Democratic Party and a long-time friend of Korshak's. According to several sources, Ziffren "was like a son" to Arvey.

Ziffren was also a close friend and associate of Alex Louis Greenberg, a reputed front man for Chicago Mafia boss Frank Nitti, and a business partner of Arvey. Ziffren and Greenberg, according to income tax records uncovered by the Kefauver Committee, were partners in a real estate interest, Store Properties, Inc., located in San Bernardino, California, which had holdings in several states, including Arizona, California, Colorado, Florida, Illinois, New York, Oklahoma, and Utah. The president of their firm was Samuel Genis, a known front for Greenberg, who had been previously arrested for embezzlement and for passing bad checks. Genis was not convicted on either charge. He was also a known associate of underworld figures Abner "Longy" Zwillman, Frank Cos-

tello, and Meyer Lansky. At one point, Ziffren loaned Genis—who was killed in a car accident in 1955—\$93,000 for their business.\*

By 1950, Ziffren had opened his own office in the Heyler Building of Beverly Hills. That same year, he became the chief fund-raiser for Helen Gahagan Douglas, the Democratic nominee for the U.S. Senate, whose Republican opponent was Richard Nixon.

Despite Douglas's defeat, Ziffren remained involved in California politics. During the early 1950s, an attempt was being made to recall the mayor of Los Angeles, who had been clamping down on the local Mafia. During the campaign, the intelligence division of the Los Angeles Police Department learned that the crusade was being engineered by close associates of the Chicago underworld. The hotel from which the recall operation was being run was owned by close associates of the Capone mob who were closely linked to Ziffren.†

In 1953, Ziffren, a respected liberal with a strong record in support of civil rights and civil liberties, became California's elected member of the Democratic National Committee, on which he sat with Arvey, who held the same position in Illinois.

Two years later, on December 18, 1955, Greenberg was shot four times in his left arm, head, chest, and groin in an obvious gangland slaying—after his autobiography, "My 46 Years with Chicago Gangsters," appeared in *The Chicago Tribune*. At the time of his murder, Greenberg was the owner of the Canadian Ace Brewing Company in Chicago, which reportedly grossed \$10 million annually.

During Ziffren's term as California's representative on the Democratic National Committee, California's Democratic Party enjoyed great success: Pat Brown, the first Democratic governor since 1940, was elected in 1958,‡ and both houses of the California State Legislature

<sup>\*</sup>Ziffren was divorced in 1947 from his first wife, Phyllis, who was also a Los Angeles attorney. According to a Los Angeles Police report, Ziffren paid his ex-wife five hundred dollars a month in alimony and another \$250 a month in support for their two children. Greenberg personally intervened on Ziffren's behalf, trying unsuccessfully to save the marriage. Soon after Ziffren married his second wife, Genis paid back his loan. Ziffren deposited the interest in the names of his second wife and mother-in-law for unknown reasons—although no law was broken by doing so.

t"One partner who was listed on the hotel liquor license with Ziffren," said one report, "was the wife of Fred Evans, a Capone money adviser and fence who was executed in a gangland killing in 1959. Another had been an officer in an investment company that converted underworld loot into real estate and other assets." This setup, the report continued, was the first disclosure of "a momentous money migration: Chicago underworld cash was flowing into California and was putting solid, legitimate enterprises secretly into some of the uncleanest hands in America." †During the gubernatorial race, Ziffren's underworld ties were repeatedly questioned by the Republican candidate, California senator William F. Knowland. During the campaign, Brown distanced himself from Ziffren, saying, "I am the architect of my own campaign. Paul Ziffren has no connection with it. Mr. Ziffren needs no defense from me. He is perfectly capable of taking care of himself."

were captured that same year for the first time since 1885. Lauding Ziffren, Paul Butler, the chairman of the Democratic National Committee, said in 1960, "Paul Ziffren has been the greatest single force and most important individual Democrat in the resurgence of the Democratic Party in California."

Thought by many to be the heir-apparent to Butler, Ziffren cut his public political career short after the 1960 Democratic National Convention in Los Angeles. However, his hand was forced when reporter Lester Velie, who had earlier written a revealing story about Sidney Korshak, published a story in *Reader's Digest*, chronicling Ziffren's long-standing ties to major organized crime figures.\*

In April 1959, Korshak accompanied Mary Zwillman, the widow of Zwillman, to Las Vegas, where Korshak was helping her dispose of her husband's interest in the Sands hotel/casino. Her husband, facing a long stretch in prison for income tax evasion, had been found hanging from a water pipe in the basement of their mansion. Although law-enforcement authorities ruled Zwillman's death a suicide, others were not so sure. There was nothing nearby—no box or platform of any kind—from which he could have jumped.

According to a confidential report of the Los Angeles Police Department, "In 1959 Korshak had an interest in the American National Bank of Chicago. Held 1500 shares in Merritt, Chapman & Scott Co. [a large building contractor]. Had shares in the City National Bank of Beverly Hills and had an oil partnership with Roy Huffington, Inc., 2119 Bank of the Southwest, Houston, Texas."

During an FBI investigation in June 1959, Korshak was interviewed by FBI agents. At that time, according to the FBI report, Korshak indicated "that he and his law partners maintain on a permanent basis Room 2001 in the Essex House in New York City. He also advised at this time that he always maintains permanent rooms in the Beverly Hills Hotel in Beverly Hills, California, and that he maintains permanent space in the Ocotillo Lodge in Palm Springs, California. Since the purchase of his home at 10624 Chalon Road in Bel Air, Korshak no longer maintains residence at the Beverly Hills Hotel on a permanent basis. . . . Information available indicates that Korshak also maintains residences in New York, Las Vegas, and a summer home in Paris, as well as residences in Los Angeles and Chicago."

<sup>\*</sup>Regarding Sidney Korshak, Ziffren said, "My relationship with Sid is essentially a social relationship. I consider him a friend of mine, but he never discusses his business with me, nor do I with him."

Korshak also told the FBI agents that his law practice "consists largely of representing labor unions and theatrical people."

In 1959, Joan Cohn—the widow of Columbia Pictures mogul Harry Cohn, who died in 1958—married shoe manufacturer Harry Karl in Korshak's Chicago apartment. According to a confidential FBI document, "After about three weeks, Joan Cohn Karl filed divorce proceedings against Harry Karl in Los Angeles Superior Court. At that time information was received by the Los Angeles office that possibly the marriage was a sham engaged in for the financial convenience of people behind the principal [Korshak]. The speculation was that Harry Cohn was fronting for Chicago investors in Columbia Pictures and when he died his estate went into probate and the marriage of Karl and Cohn was contrived as a method through which the real investors in Columbia Pictures could regain title to their property without disclosing themselves on public records."

At the conclusion of the FBI interview, Korshak told the agents that he, his wife, and their two teenage sons "were taking off with Dinah Shore, television entertainer, and her oldest child, for a two-month tour of Europe. Concerning his associates, Korshak advised that he has been linked with many people and has become friendly with many people because he will not 'back away from anyone or repudiate anybody.'"



IN NOVEMBER 1959, in anticipation of a battle with motion picture and television producers over actors' residuals for the broadcast of old movies and a badly needed actors' pension and welfare fund, Ronald Reagan was elected to an unprecedented sixth term as president of the Screen Actors Guild. He was unopposed and generally considered SAG's strongest voice within the Hollywood community.

At first, Reagan recalled, he did not want to be SAG president again. But to help him make a decision as to whether to become head of the labor union, he asked management for its advice. "Finally," Reagan explained, "I called my agent, Lew Wasserman—who else? I knew that he shared my belief that my career [in films] had suffered. To tell the truth, I was positive he'd reiterate that belief and I could say 'no' with a clear conscience. Well, I pulled the ripcord and the chute didn't open. Lew said he thought I should take the job. It was still a satisfactory answer because down inside me there was a certain knowledge that I wouldn't like me very much the other way."

Within a month of his election, Reagan became the target of controversy within the guild because of his activities with GE Theater. Although GE Theater had fallen from third in the Nielsens in 1956-57 to twenty-third in 1959-60, the show was still secure in its Sunday-

night prime-time slot. Because of the show's earlier success, Reagan's new contract gave him more responsibility for program production. As a result of charges that Reagan had an ownership interest in the MCA-Revue program and was producing shows, *Screen Actor*, the official voice of SAG, said in its December issue that Reagan, who had been an official with the union for the past thirteen years, had been the subject of "vile and unscrupulous tactics" and "false rumors" having no basis in truth.

Screen Actor continued, "Members are being told that Ronald Reagan, president of the Guild, produces and has an ownership interest in the television series, the General Electric Theater. . . . Ronald Reagan is a contract employee of the advertising agency Batten, Barton, Durstine and Osborn. Under this contract he is required to appear as an actor, as a master of ceremonies, and to make personal appearances. He is paid a weekly salary. He has no ownership interest, percentage, participation or otherwise in the General Electric Theater, or any other picture or series. He is not the producer of the series and he has no voice in the selection or approval of the actors employed."

The primary grievance of the Screen Actors Guild was the millions of dollars its members felt they were owed by the various production companies for old movies sold to the television markets. Since 1948, vocal SAG members had been demanding that the union negotiate an agreement with movie producers so that actors could be paid when their movies left the theatres and began running on television. By 1960, MCA's shrewd 1958 purchase of Paramount Pictures' backlist of pre-1948 films for \$50 million had already grossed MCA an incredible \$60 million. The actors felt that some of that money—as well as money from all movies made prior to 1960—belonged to them. "That's why Reagan was elected president of SAG again in 1959," said a SAG board member. "We knew how close he was to MCA and thought he could get us our best deal."

MCA stood to be among the biggest losers if SAG struck against the industry and bargained hard for residuals. MCA quickly joined with a handful of smaller production companies to settle quickly with SAG, opting "to agree to agree with whatever was settled" between SAG and the larger studios, according to the SAG board member. But the major studios—which were led by Spyros Skouras of Twentieth Century-Fox—refused to negotiate on the pre-1960 movie rentals.

The quick settlement between MCA and other smaller companies with SAG provoked charges by some SAG board members that Reagan was conducting selective bargaining. Powerful forces in the industry came

to Reagan's rescue. Frank Sinatra held a press conference and, with Reagan standing by his side, announced that he had authorized his film production company to sign a collective bargaining agreement with SAG. Sinatra's company, Dorchester Productions, which had been filming Ocean's Eleven at Warner Brothers, agreed to a five-percent actors' residual after the film was released. Like MCA, Sinatra continued production. Sinatra then appealed to the other studios "to do a little compromising," adding that "the Screen Actors Guild has already compromised greatly from its original contract demands."

After Sinatra's company had signed the agreement, "the roof fell in," according to Reagan. "Richard Walsh of the IATSE moved in—issuing an ultimatum to Frank and all other independents who had shown signs of going along. . . . Walsh's act could hardly be excused. He [already] had a signed contract [with the producers] with months to run. We resented the effect it had of interfering with our negotiations."

Reagan then contacted George Meany, president of the AFL-CIO; Meany talked to Walsh. At a subsequent meeting, Reagan remembered that he called Walsh "a lousy, damn strike-breaker."

When asked about these events as chronicled by Reagan, Walsh simply replied that they were "not told as they happened," refusing to challenge Reagan's statement specifically.

However, when pressed, Walsh sharply replied, "Korshak's involved in that whole proposition you're talking about there, and it would tie back into Reagan. . . . Reagan was a friend of, talked to Sidney Korshak, and it would all tie back together. That's the whole thing that was going on at the time you're talking about. . . . I know Sidney Korshak. I know where he comes from, what he is, and what he's done. He's a labor lawyer, as the term goes."

Pressed for more details about the relationship between Reagan and Korshak, particularly during the 1960 SAG negotiations, Walsh refused further comment.

Earlier, Milton Rackmil—a close friend of Korshak and the president of Decca-Universal, which had become increasingly dependent on MCA talent—told Reagan, during a private meeting, of a split among the producers. Breaking ranks, Rackmil agreed to give six percent of the post-1948 movies and seven percent of the post-1960 films to the actors, as well as a five-percent employee-paid contribution to the proposed SAG pension and welfare fund. When the other major studios refused to follow suit, the SAG membership voted to strike on March 7, 1960.

Several weeks into the strike, Reagan and SAG national executive

secretary John Dales met at the Beverly Hills Hotel—where Korshak, by coincidence or not, conducted much of his business—again in private, with long-time Loew's company man Joe Vogel, the president of MGM. At that meeting, the two sides reached a tentative agreement.

The final settlement, reached on April 18 after a bitter six-week strike—which superseded the SAG-Universal agreement—was later termed "The Great Giveaway" by the Hollywood acting community. The contract, which Reagan recommended, required the actors to forfeit all of their claims to residual payments for television showings of movies prior to 1960. In return for this huge concession, the studios promised to create a pension and welfare plan for actors with a one-time initial contribution of a mere \$2.65 million. In the future, actors would be entitled to six percent of all future gross sales of theatrical movies to television—after the producers deducted their distribution costs, which sometimes were as high as forty percent.

The SAG membership approved the settlement. The SAG leadership, especially Reagan, assured their members that the best possible deal had been negotiated. The actors had also been warned that several of the studios could close permanently if the strike continued much longer. John Dales—SAG's chief negotiator, along with Reagan, during the strike—defended the settlement and Reagan's performance. "We came out of the 1960 strike with ninety percent of what we asked for," he said. "We got substantial raises, an unheard-of pension and welfare plan at the time. . . . Some members were beginning to get destitute as the strike wore on. It was Ron's judgment and mine that we should take the deal."

Older actors, who lost thousands of dollars when the pre-1960 pictures were sacrificed, were far less charitable about Reagan's skills during the strike. One veteran television actor and SAG member said, "We spent twenty years correcting the Reagan contract. In no way did we win that strike—we lost it. Reagan was a conservative, management-sweetheart union president, and he ran SAG like a country club instead of a militant labor union."

Even Bob Hope, one of Reagan's closest friends, was deeply upset about the 1960 settlement. "The pictures were sold down the river for a certain amount of money," Hope said bitterly, "and it was nothing. . . . See, I made something like sixty pictures, and my pictures are running on TV all over the world. Who's getting the money for that? The studios. Why aren't we getting some money . . .?

"We're talking about thousands and thousands of dollars, and Jules Stein walked in and paid \$50 million for Paramount's pre-1948 library of films and bought them for MCA.... He got his money back in about two years, and now they own all those pictures."

As the 1960 strike wound down, charges against Reagan's dual actorproducer role, particularly with regard to his status with *General Elec*tric Theater, again became an issue.

The negotiation of his contract with GE in 1959 had given Reagan twenty-five-percent ownership of the program, in addition to his salary. Reagan was technically no longer an employee of the BBD&O advertising agency. Instead, he had become an employee of Revue Productions and MCA.

When Wasserman was asked about the discrepancy between Reagan's denials that he had not been producing and what was already on the record, the MCA president simply forgot. He said he could not recall whether or not Reagan had produced any GE shows. "I wouldn't know how to draw the line between producing and being the host," Wasserman said. "Being a host was kind of a combination."

Wasserman also contended that he could not remember what ownership interest Reagan had received in 1959 when he renegotiated his GE contract. "I'm sure [Reagan] made the best deal his people were capable of making," Wasserman said, distancing himself from his own performance on Reagan's behalf. "No, I don't know what he received."

Finally, when Wasserman was asked to comment on whether there had been any conflicts of interest between Reagan's close ties with MCA and the subsequent SAG strike, he replied, "I am certain there was never any conflict of interest."

As the 1960 strike ended, Reagan left no doubt as to which side of the line he was on between actor and producer. On June 7, 1960, after serving only seven months of his twelve-month term, Reagan resigned as SAG president to become a partner in a joint production venture with MCA and Revue Productions.

In his July letter of resignation to SAG, Reagan stated: "The Guild has commenced negotiations with television producers. Up to now I have been a salaried employee with no interest in profits. Now I plan to change that status by becoming a producer with an interest in profits. Therefore, with deep regret, I tender my resignation as president and member of the board of directors of the Guild."

At least one member of the SAG board was happy to see Reagan leave. Actor James Garner, who had been appointed to the board by Reagan, said, "[W]hen I was vice-president of the Screen Actors Guild when he was its president, we used to tell him what to say. He can talk around a subject better than anyone in the world. He's never had an

original thought that I know of, and we go back a hell of a lot of years." In the midst of the SAG strike, a major movement was initiated to merge two of the most powerful unions in the entertainment industry. While SAG had grown from 7,338 to 13,403 members since Reagan's 1952 presidency, the American Federation of Television and Radio Artists (AFTRA)—which represented live TV and radio performers as well as record artists—had also swelled from 8,500 to 14,000 members during the same period of time. Two previous attempts to consolidate the two unions had been unsuccessful, primarily because of the conservative SAG leadership, which had had jurisdictional disputes with AFTRA over television actors. In several appeals to the National Labor

The difference in 1960 was that a professional consultant was retained by both groups. His job was to carefully examine and predict the impact of the proposed merger, and to recommend whether it should happen.

Relations Board, SAG had been winning the battle for control.

In his final report to both union boards, consultant David L. Cole advocated the merger, stating that such a move would give the performers tremendous bargaining power when negotiating with the various production companies. He added that the union would effectively end the jurisdictional disputes and streamline their administrative procedures. Also, since many members of SAG were also members of AFTRA, and vice versa, pension and welfare plans could become uniform.

Cole proposed that the name of the newly merged union be the Television, Radio, and Screen Actors Guild. He recommended that its headquarters be in Hollywood, because of the heavier concentration of members in California.

Reagan had always openly admitted his opposition to the general idea of one big performers' union to negotiate with management. As to Cole's 1960 plan, he told actor Walter Pidgeon, "Walter, I agree with you completely—I'm going to keep an open mind. I'm going to read his plan before I vote no." 10

The proposed merger failed.



ON SEPTEMBER 1, 1959, MCA underwent a corporate reorganization, bringing all of its companies under one corporate structure, now called MCA, Inc. On October 9, it became a publicly owned corporation, listed on the New York Stock Exchange and offering 400,000 shares at \$17.50 a share. Its new board of directors included Stein; Wasserman; Walter M. Heymann, the vice-chairman of the First National Bank of Chicago; Charles Miller, Stein's brother-in-law; and Leigh M. Battson, the president of Union Oil of California.

In the July 1960 issue of *Fortune*, reporter Edward T. Thompson wrote a penetrating story about MCA entitled "There's No Show Business Like MCA's Business." Thompson reported that MCA, which employed 3,000 people, had a \$15 million revolving loan with the First National Bank of Chicago, but that the company's working capital was \$31 million. He added that Jules Stein personally owned 1,430,000 shares of MCA stock, which was selling for thirty-three dollars a share during the spring of 1960. Wasserman "holds 715,000 shares, and seven other officers own more than 30,000 shares apiece. In all, the officers and directors own at least seventy-five percent of the company."

Thompson's story only gave the Justice Department's Antitrust Division further reason to pursue its on-and-off-again investigation of

MCA. MCA seemed to take the high road with the Antitrust Division by pledging in a letter from its legal counsel, Cyrus Vance, on February 29, 1960, to Charles L. Whittinghill, chief of litigation for the Antitrust Division, that it would "cooperate fully" with the government's investigation. MCA did limit the government's discovery to the years 1957 and 1958, and excluded all documents referring to foreign acquisitions. The information submitted would include MCA's six major divisions: National Television Sales, Revue Studios, Syndicated Sales, Pre-1948 Paramount Features Sales, MCA Artists, and the Industrial Show and Fair Division.

The Antitrust Division, in their response to Vance, insisted that there be no limits to the scope of their request. However, they did allow MCA to eliminate listing the acquisition of foreign agencies.\*

A clearer indication of MCA's willingness to cooperate with the federal government came in October 1960 when the FCC subpoenaed MCA vice-president Taft Schreiber to testify during its hearings on network programming. The FCC also requested a list of all television programs produced by MCA and Revue in which they had a financial interest as well as a list of those television shows which MCA or Revue had packaged or for which they had received a percentage of the selling price.

Schreiber, during his appearance before the commission, refused to comply with the subpoena and when pressed on the witness stand simply stood up and walked out of the hearing. The FCC's presiding officer ruled that Schreiber's actions were contumacious. Schreiber appealed but was overruled and again ordered to testify. FCC commissioner Frederick W. Ford had earlier complained, "It seems as if you can't even go to the bathroom in Hollywood without asking MCA's permission. What upsets me most is the way people tell me that MCA says, 'Nobody in Washington can touch us.'"

While MCA made feeble, somewhat cosmetic attempts to comply with the Antitrust Division's requests, the FBI was conducting an array of interviews. For the most part, those interviewed were primarily outside MCA's sphere of influence. Those inside who were interviewed were not asked very penetrating questions for fear that interviewers would tip off MCA to the government's case in the event that a grand jury was convened and prosecutions brought about. Nearly all of those interviewed demanded total confidentiality for fear of reprisals from MCA or one of its subsidiaries.

<sup>\*</sup>The FBI also learned that MCA had fourteen U.S. subdivisions, two Canadian subdivisions, and twelve foreign subsidiaries, all of which were wholly owned.

One industry source told Antitrust Division attorney Leonard Posner, "MCA is the biggest single power in television today. Its power and 'tentacles' are such that both networks and motion picture companies have to bow down before it."

Posner told another source that the government believed that "MCA has engrossed the largest part of the top talent in the motion picture and television industry. This they have used as leverage to obtain a powerful foothold in the programming production industry. MCA uses this unique talent (which is a kind of copyright or patent) as the source of leverage to enable it to gain a foothold in the markets in other areas. They use predatory practices such as blacklists, and they use tie-ins to require other parties to take certain talent, show facilities, or other production components that the other party did not want." When Posner finished his summary, his source said, "That's MCA. You have just described MCA; that's the way they work."

FBI special agent Carter Billings filed his report on the Bureau's findings after its search of MCA records. According to Posner, "Billings said that inspection of the MCA files took place in MCA offices. The files were brought to the FBI in a separate room. The FBI was not given direct access to the files. No personal files of Wasserman or Stein were produced. [MCA's house legal counsel Morris] Schrier claimed they did not have any.

"Billings said that the FBI first began looking into MCA files on July 1, 1959. They finished examining files in December 1959. There was an average of three men per day employed almost continuously in examining these files. The total examination took approximately six months."

One problem the FBI found was the destruction of records by MCA. For instance, "the records retained in [William] Meiklejohn's office were all destroyed," according to one FBI report. "This was apparently done upon the recommendation of a business efficiency survey concern which was then engaged in a survey of the studio operations."

The FBI found several of MCA's responses to be "unsatisfactory," particularly when they concerned MCA's and Revue's activities in the packaging and ownership of network television programs. Nevertheless, the FBI determined that MCA controlled "approximately fifty to seventy-five percent of the top motion picture, television, and radio talent," which it had, for the most part, obtained through "predatory practices." The FBI, among other things, questioned MCA's relationship with NBC and its president, Robert Kintner, calling the network a "captive market for MCA's television shows."

One source interviewed by the FBI stated that "MCA would immedi-

ately agree to a [civil settlement] if one were filed. On the other hand . . . they will resist 'to the end of time' any criminal allegations against them."

As Posner continued his interviews, he was told, "MCA will do anything in its power to keep an independent producer like David Susskind [who was a former MCA agent] from getting some of its talent to use in an independent production—this, despite their fiduciary relationship, which should require MCA to try to get employment for its actors. But MCA also considers the fact that Susskind is competition when it comes to program production. Hence they will do everything in their power to book their talent elsewhere when Susskind wants some of them, even going to the extent of building a pilot show to keep the star out of circulation. . . . They would rather 'break the leg' of one of their stars than allow independent producers to use them on shows competitive to MCA."

A pro-MCA source told Posner that "MCA was benevolent. It was good to its employees, it set up trust funds for them, and when it represented a star, that star got the best representation that money could buy. He said that it is a brilliant organization. He also said: 'You will not be able to prove your case against MCA, because . . . MCA has been extremely careful not to do anything overtly which could be construed as illegal.'

Yet another MCA admirer told the FBI, "Jules Stein, Lew Wasserman, and Taft Schreiber are three of the smartest, most intelligent businessmen in the world today and so superior to the guys running agencies that they make them look sick. In principle, that is the reason why they are a big success. [They are] just smarter, shrewder, have more talent, and they were tough and did things within the law they were entitled to do." 6

When Posner broached the subject of the relationship between MCA and Paramount, his source replied, "[I]f you are talking about links, what about the one between Universal and MCA?" The most obvious was MCA's purchase of Universal's backlot, but the source added that "MCA now had working for them at least two or three of the big stars [at] Universal, such as [Burt] Lancaster, Tony Curtis, and Janet Leigh."

Posner's source said that there must have been some sort of a tie-in deal there in order for MCA to get these stars. The source added, "Perhaps that was part of the consideration for MCA's paying so much for the Universal lot. Another example of such a tie-in... is the Alfred Hitchcock picture *Psycho*. The picture was produced on the Universal lot by MCA.... Financing for the picture came from the company that

is going to distribute the picture—Paramount. . . . In other words, MCA represented Hitchcock and told Paramount that if it wanted to finance and release the Hitchcock picture, it would have to be produced on the Universal lot so that MCA could get its cut from the below-the-line facilities. This arrangement was made in spite of the fact that Paramount had a lot that was half empty at the time. Obviously, Paramount would have preferred to have had the picture made on its own lot, so that it could have gotten some of its money back toward overhead."

Since 1955, Alfred Hitchcock Presents had followed Ronald Reagan's General Electric Theater on Sunday in the 9:30–10:00 P.M. slot on CBS. Although Hitchcock "owned" his program, it was made by MCA's Revue Productions—as was The Jack Benny Program, which in 1959 followed GE Theater and Alfred Hitchcock Presents at 10:00 P.M. In September 1960, MCA switched Hitchcock's mystery anthology from CBS to NBC, leaving a gap in the CBS Sunday-night schedule. All of this seemed mundane to most viewers, except the Antitrust Division.

CBS wanted to move Benny's show up a half hour to fill the void left by Alfred Hitchcock. However, with a star of Jack Benny's stature, a network could not make such a move unilaterally; Benny had to agree to the change. MCA, Benny's representative, decided, according to the Justice Department, to flex its muscles with CBS. MCA allegedly told CBS and the Benny show's sponsor, Lever Brothers, that if they wanted to move, and even keep, The Jack Benny Program, they would have to take two other MCA productions, Checkmate, an hour-long private-eye series, and Ichabod and Me, a situation comedy. Both shows were owned by Benny's company, J & M Productions.

CBS reportedly complied, placed *Checkmate* on Saturday nights, and received permission to move *The Jack Benny Program* up a half hour to follow *General Electric Theater* on Sunday nights. Later, when Benny was having income tax problems, MCA bought his company for one percent of MCA stock, worth \$2,745,000.

Speaking of the deal, Benny said, "What happened when MCA began representing me? Well, I got into business. They helped me set up a corporation, Amusement Enterprises, and then they advised me to dissolve it by selling the shares and keeping most of the money as capital gains.

"Then they helped me form J & M. They put me in a position where I could pay terrific taxes and still keep some money for myself. That was one of the attractions of MCA. They call it giving an actor an 'estate.' "

According to a Justice Department document, "MCA's switch of Alfred Hitchcock Presents from CBS to NBC came shortly after the failure of [Revue executive producer Hubbell] 'Hub' Robinson's Ford Star Time Show." The Hitchcock program, according to the report, "might have been a sop to Ford because of the failure of Star Time. The Justice Department suspected that the Hitchcock switch released Ford from paying for the costs of nine Star Time episodes not aired and that MCA also had a proviso with NBC to take other lesser MCA shows, such as 'Hub' Robinson's Thriller, in return for Hitchcock.

The report also said that the Star Time deal with Ford had begun before Robinson had become its executive producer. "MCA had an advantage over other independent package producers by virtue of its being able to go to J. Walter Thompson, the advertising agency which represented Ford, and say, 'We'll give you a lot of stars. We'll give you [Alec] Guinness, Ingrid Bergman, and many others [including Marilyn Monroe, Sir Laurence Olivier, and playwright Arthur Miller].' Ford swallowed the bait and signed the contract. MCA, however, did not deliver all the stars [except Guinness and Bergman]. But . . . it was by virtue of using the leverage inherent in the monopolies represented by these unique and irreplaceable stars that MCA was able to make the sale of the package (before it was produced) to Ford."

"MCA would not explicitly tell outside packagers," one source told Posner, "that it would never give them Guinness or Bergman. But let an outside producer try to get them. They would not allow an outside producer to use these stars. Part of the reason is due to the fact that these stars should not appear on television. They are too big and important. They are paid per exposure, and their price for exposure in motion pictures is about \$750,000 per film. In television, Bergman would receive only about \$100,000 for the exposure. Hence, since such exposure would serve to dilute her [public image as a motion picture star], she would never have been used on television. The only reason she was used on television was because it redounded to the benefit of MCA, if not Bergman."

Posner added his own comment on his source's statement, writing, "Bergman gets \$750,000 per picture. Hence, if MCA merely sold Bergman to MGM, [MCA] would get ten percent of \$750,000, or \$75,000 commission. But when it sells Bergman as part of an overall package involving \$160,000 per show, it gets ten percent of the gross price of the show, i.e., thirty-nine [episodes] times \$160,000 or \$6,240,000 gross, which nets MCA \$624,000. In such a case, MCA is glad to sacrifice Bergman's interest for MCA's own interest. That is why MCA will put

Bergman on television in an MCA package. But MCA will never permit such stars to do television shows for an independent producer. In such a case, since MCA would get nothing out of the sale of the overall package, it would merely obtain . . . ten percent [in a single commission]."

The Ford Star Time case illustrated how MCA manipulated sponsors and advertising agencies to get good and bad shows on the air. According to a Justice Department report, "MCA will sell a 'bomb' [a bad show] to an advertising agency. The agency buys it in good faith and hopes that it will be a good show. After the MCA show proves its lack of worth, the agency approaches MCA to cancel the contract after thirteen weeks. MCA will say: 'We'll let you out of the "bomb" after thirteen weeks, but in order to do so you will have to take this other new series,' which [MCA] touts very highly. The result is that MCA gets deeper and deeper into the advertising agency's budget. The trouble with this tie-in proposition is that in order to obtain its release from a bona fide contract, the advertising agency agrees to take another show."

Sources told Antitrust Division attorneys that the advertising agencies involved would never admit to falling for MCA's scheme—because it would also be an admission that they purchased a "bomb" in the first place, which would anger their sponsor. An example of this was the MCA-Revue-produced *Johnny Staccato*, which appeared on NBC in 1959 and proved to be a loser. *Johnny Staccato* was sponsored by Reynolds Aluminum, which was represented by the William Esty Agency. According to a Justice Department document, "In order to get out of its commitment to *Johnny Staccato*, Esty had to take another show." <sup>10</sup>

According to an industry source interviewed by Posner, director Blake Edwards had earlier gone to his MCA agent with a new program idea, called *Peter Gunn*. "This show was then copied by MCA in an almost Chinese-copy style and the facsimile was called *Johnny Staccato*," wrote Posner.\* "In spite of its fiduciary obligations to Edwards, MCA then sold the show. When Edwards protested and sought his release from an MCA representation contract because of this incident, MCA refused to let him go. . . . MCA was seeking to keep him in bondage."

The parade of charges continued. One source said that he "would gladly shoot several of MCA's officers if he had the chance." Another

<sup>\*</sup>Edwards's original *Peter Gunn* was produced as well, and ran for two years beginning in September of 1958.

charged that MCA had become an "Iron Curtain" organization because of its secrecy and bunker mentality during the antitrust investigation. One person even charged MCA with corporate espionage, charging that its executives regularly placed secretaries from their typing pool in studios all over Hollywood, so that it could "get copies of scripts virtually immediately." Another source charged that some actors were forced to kick back part of their salaries to MCA. Someone else charged that MCA "was a bad influence on the industry because it puts out programs of violence and sadism and sex which help to create juvenile delinquents." Yet another said that MCA had engaged in "commercial bribery" and even made "use of women to entice executives of buying organizations." Someone else warned that MCA "was a tough, vindictive outfit. If you go after them too hard, watch out for the concrete shoes." There was even a charge that MCA had helped to destroy RKO by refusing to give the studio its talent.

MCA's tactics had affected its relationship with Warner Brothers, which was also in television production and had provided ABC with some of its top shows, including Maverick, Cheyenne, and Sugarfoot. Matters between the two companies had deteriorated so badly that the studio refused to permit MCA personnel on its lot. The dispute between MCA and Warner Brothers occurred during the early 1950s when Warners had offered a young, unknown stage actor named Charlton Heston a standard studio contract and wanted him to play the lead in Ethan Frome. However, MCA, Heston's agent, persuaded him to do Dark City with producer Hal Wallis at Paramount instead. Warners executives were so angry that they declared war on MCA. In fact, the situation had become so intense that "William Morris was representing the talent for MCA on the Warner Brothers lot." However, peace between MCA and Warners came about when MCA later negotiated for Heston to star in three Warner Brothers films.

MCA also allegedly used cash and gifts to induce prospective clients to sign an exclusive-representation contract. For example, Rock Hudson refused a home in Bel Air to leave the Henry Wilson Agency and sign with MCA. Jayne Mansfield did switch agencies after she was offered and accepted \$50,000 in cash to do so. Another allegation was that Dean Martin and Jerry Lewis, before their split, were similarly offered money by MCA—if they would leave their agent, Abner Greshler, and become MCA clients.

In another case, MCA was overprotective of one of its top clients. Stanley Kramer was producing the Abby Mann classic Judgment at

Nuremberg, a moving drama about the Nazi war crimes trial, and wanted Montgomery Clift to play a small part in the film. For this twelve-minute part, Kramer offered Clift \$75,000 for one week of shooting. MCA refused the offer, saying that Kramer had to give Clift his usual \$300,000 a movie. Kramer could not afford to pay that much and looked for someone else to play Clift's part. But, soon after, Clift called Kramer and offered to do the part for no salary, asking for only travel and hotel expenses. Kramer happily agreed to Clift's terms.

When Clift was asked why he was willing to work for free, he replied sarcastically, "So that when the picture is over, I can take a big, empty paper bag, tie a blue ribbon around it, and send it to MCA with a note saying, 'Your commission is inside.' "13

Some of those interviewed defended MCA with enthusiasm. One recalled how a Hollywood uproar over the hiring of Dalton Trumbo—one of the blacklisted writers of the Hollywood Ten—to write the screenplay for Stanley Kubrick's 1960 super-spectacular, *Spartacus*, was averted when Wasserman approved of and protected Trumbo.

Interviewed by the FBI, Ed Sullivan defended MCA, saying that he "never had any difficulty with regard to the acquisition of MCA talent." He added that "MCA was an extremely efficient organization and that ... many of the complaints [against MCA] were misunderstandings."<sup>14</sup>

Another story revealed Cary Grant's angry departure from MCA. With television still in its infancy, many of the top Hollywood stars simply refused to do television, thinking that it could compromise and tarnish their images in motion pictures. They preferred the public to pay to see them rather than get them for free. During a meeting with Grant, MCA executives told him, according to a Justice Department document, "that he should appear in a television series. Grant immediately became hostile. He asked again whether they really believed that he should appear on television and MCA replied in the affirmative. He asked who would produce the series. They replied, 'MCA.' Grant then stood up and said, 'Our contract is over as of now,' and he left MCA never to return." 15

Frank Sinatra, who had gone through so much to change talent agencies and come to MCA, also left angrily. According to another Justice Department report, "Sinatra has had a great deal of trouble with MCA... Sinatra had climbed to heights and then his career had declined precipitously. Sinatra was at that very time very irritated at the way MCA was representing him...." The rift between Sinatra and MCA eventually culminated in an open breach in 1952. Then MCA did

something unparalleled in the industry: the talent agency took a fullpage ad in *The Hollywood Reporter* and *Daily Variety*, stating that it was releasing Sinatra unconditionally.<sup>16</sup>

Sinatra then went to the William Morris Agency, as did several other MCA clients, including Gloria DeHaven, Jan Murray, and Eddie Fisher. Soon after, Sinatra won the part of Maggio in *From Here to Eternity*, for which he received the 1953 Oscar for Best Supporting Actor.

Ironically, according to FBI documents in 1962, "Sinatra's crowd, [known as] the 'Rat Pack,' is reported to have boasted that they already have 'killed' the government's antitrust investigation of MCA."

17

The "Rat Pack" had also come up the previous year—in an FBI electronic surveillance operation. Chicago Mafia boss Sam Giancana was having a conversation with Johnny Formosa, one of his lieutenants, about their feelings of betrayal at Sinatra's inability to "deliver" favorable treatment from his friend President Kennedy. During this discussion, they also talked about the "Rat Pack."

"Let's show these fuckin' Hollywood fruitcakes that they can't get away with it as if nothing's happened," Formosa said. "Let's hit Sinatra. Or I could whack out a couple of those other guys. [Peter] Lawford and that [Dean] Martin, and I could take the nigger [Sammy Davis, Jr.] and put his other eye out."

"No . . . ," Giancana replied, "I've got other plans for them."

Soon after this bugged conversation, Sinatra, Martin, and Davis performed at the Villa Venice, a nightclub in Chicago, adjoining an illegal gambling club operated by Giancana's mob. The receipts for just one month, according to wiretaps, were \$3 million. Although Sinatra admitted performing at the Villa Venice, he denied that he knew Giancana was in any way connected with the club. FBI agents later asked Davis why he had agreed to perform at the nightclub. "Baby, I have to say it's for my man Francis." And for Frank's friends? "By all means." Like Giancana? "By all means."

## CHAPTER TWENTY-ONE

JOHN F. KENNEDY was inaugurated as president of the United States in January 1961 and had already appointed his brother, Robert F. Kennedy, as attorney general. Under Kennedy, the U.S. Justice Department pledged that among its top priorities would be prosecutions of the nation's top Mafia leaders, their associates, and antitrust violators.

On March 8, 1961, the FCC subpoenaed Taft Schreiber once again to testify at its hearings. As before, Schreiber refused to testify except in a secret session. He was asked several preliminary questions, like which television programs MCA packaged, and again refused to answer, even after being directed to do so by the commission. According to a former top MCA executive, "There was something really awful about the whole FCC thing. Our total defiance was viewed by nearly everyone as nothing less than a reckless disregard for the process of government. You want to know something? We were scared. That's right, scared. We were scared of that goddamn Antitrust Division. Whatever was said in front of the FCC was going right into the case file being built over at Justice. We knew they were starting to breathe down our necks; we could feel it."

Two weeks later, Robert Kennedy was formally notified by Lee

Loevinger, the head of the Antitrust Division in Washington, that "MCA is now being investigated by the General Litigation Section of the Antitrust Division. If the evidence warrants, a request will be made . . . for grand jury authority. . . . The investigation is expected to result in either a criminal or civil case, or both."

That same day, March 21, the chairman of the FCC sent Kennedy a letter, requesting a conference "on the possibility of bringing a criminal action against Taft Schreiber, vice-president of MCA." Three days later, attorneys representing Schreiber charged that the FCC "has not shown that the information sought to be subpoenaed is necessary or appropriate for the discharge of any statutory authority conferred upon it by Congress," adding that the FCC "proceeding was illegal and beyond the authority of the commission."

Meantime, on March 27, in a letter to an attorney friend who was outside the government and operated within the entertainment industry, Leonard Posner mentioned, almost in passing, "Incidentally, I am bemused by the fact that MCA was apparently the only talent agency which got a blanket waiver from the talent unions. Am I correct in stating that this is a fact? And, if so, do you know why this happened?" This was the first reference to either the American Federation of Musicians or the Screen Actors Guild since the official investigation began. And Posner would follow up.

But the federal government was faced with the problem of having too many investigations of MCA. While the Justice Department and the FCC determined what to do with the defiant Taft Schreiber, the Antitrust Division's General Litigation Section was weighing the options of prosecuting Schreiber for either civil or criminal contempt. There would be major consequences if the government attempted to prosecute Schreiber at all. For instance, what would happen if Schreiber was again required to testify before the FCC hearing and then took the Fifth? Would he then be given immunity from prosecution and required to testify? Would such actions harm the Antitrust Division's investigation of MCA?\*

As another complication, Posner received a telephone call from Nicholas Zapple, special counsel to the U.S. Senate Interstate and Foreign Commerce Committee, chaired by Senator Warren Magnuson. Zapple told Posner that the Senate panel had a subcommittee dealing exclusively with investigations into the television industry, and that

<sup>\*</sup>Eventually, the Justice Department's Criminal Division decided not to press criminal contempt charges against Taft Schreiber, yielding instead to the FCC's efforts to proceed against the MCA vice-president in civil court. That case was later dropped.

several senators were interested in conducting a probe of MCA "if the Antitrust Division was not prepared to move effectively and promptly into the affairs of that organization."

"I told Zapple," Posner said, "that we were investigating MCA ... [but] that there were difficult problems connected with the investigation: witnesses appeared to be frightened; there were reports that MCA had prepared special reports designed . . . to prove they were innocent of antitrust violations. In addition, it was anticipated that it would be a very difficult case because we would get no evidence from MCA, and it would hence be necessary to lay a firm foundation of evidence from other sources."

Zapple said the senators would, thus, probably "not go into the matter themselves."<sup>2</sup>

A week later, MCA attorney Albert Bickford, who had replaced Cyrus Vance, talked to Posner and asked "whether there was any connection between the FCC hearing and its actions against Schreiber and our investigation . . . ," Posner wrote. "I told Bickford that so far as I knew the FCC was primarily seeking something different from our interest in the matter."

Lee Loevinger called Posner on April 10 and demanded to know "where we stood on MCA." After giving him some background information, Posner replied that it would be important "to try to have a grand jury in the MCA matter because the witnesses were frightened to death and we wouldn't expect to be able to get any specific direct evidence without the cloak of secrecy of a grand jury."

The following month, Posner wrote a lengthy memorandum on the MCA investigation. In explaining the case, Posner wrote, in part: "Even more crucial is the fact that our theories depend on proof of conspiracies between MCA and two talent unions (SAG and AFM) and between MCA and NBC. We propose to learn more about these conspiracies in the next month or two in as quiet a way as possible. For example, we propose to accept SAG's offer to examine their files while we are on the West Coast. We are very much afraid that if MCA and its alleged conspirators learn of our suspicions—which will be inevitable once the 'large' FBI investigation gets under way—this evidence will disappear and all information concerning these conspiracies will go underground. This, in itself, could mean loss of the case before we are fairly started."

On May 22, Nicholas Zapple from the Senate Interstate Commerce Committee met with Posner and told him that the members of his subcommittee on television wanted to move on MCA. Posner wrote, "We discussed fully with Zapple the reasons why the Antitrust Division would like two or three months in which quietly to conduct an investigation of MCA. Zapple said that he understood the problem. We did not, however, mention talent unions. We indicated to Zapple that we were afraid that if there were undue publicity on MCA, that MCA would attempt to contact potential witnesses and alter or suppress their testimony. We also indicated that it would be very difficult to obtain evidence on the case."

That same day, further complications arose when Paul Laskin, counsel to the Senate Subcommittee on Juvenile Delinquency, chaired by Senator Estes Kefauver, wanted to explore how crime and violence were portrayed on television. In order to do so, Laskin said, according to Posner, there was a definite possibility that they might find themselves immersed in developing evidence on MCA directly. We told Laskin that this would definitely prejudice our case. . . . He promised to do all he could to try to avoid going into MCA directly."<sup>6</sup>

The next day, the Antitrust Division formally requested from the IRS all of the income tax returns of MCA and all of its subsidiaries, including MCA Artists and Revue Productions.

On May 25, Posner began his investigation into the Justice Department's "conspiracy theory," involving NBC, SAG, and AFM. Posner's first industry source told him that "[NBC's Robert] Kintner could not possibly have been so dishonest as to have sold out his own company even though he had been given the job [as president of] NBC through influence exerted by MCA." Instead, the source thought that "NBC had entered into some sort of exclusive arrangement with MCA whereby it [NBC] got the first pick or first refusal on a number of programs . . . [but] that such an arrangement would, of course, have required NBC to take the bad programs along with the good."

Regarding the MCA-SAG relationship, the source said that he did not think the fact that MCA had been the only agency to receive a blanket waiver was significant. "MCA had foreseen this situation long before anyone else," he said, "and had therefore anticipated [it] by moving in quickly and asking for a blanket waiver."

Posner replied that he "considered this slightly far-fetched: any of the talent agencies would have realized that the biggest profits would come from program sales since they would have the opportunity to see the contracts that their actor-clients had signed. Furthermore, any talent agency which came across a script that looked like a promising deal for one of its clients would want to put together the package and produce

it. . . . A blanket waiver was the only way that any company could effectively engage in continuous television production."

The source later clarified himself, saying that he agreed that there was a conspiracy between MCA and AFM. "Furthermore," Posner wrote, "on the basis of his knowledge of SAG, he thinks it only logical that exactly the same pattern is being repeated in television today. As soon as I began to describe the setup in radio days, [the source] exclaimed: 'That's it! That's it! It's exactly the same system that MCA used in radio days.' He said that he had been very familiar with MCA's radio and band practices, and he said, 'Now you have it. They are doing the same damn thing in television today.'"

The source said that James Petrillo—who had finally been replaced as national president of AFM by Herman Kamin in 1958 but kept control of his Chicago local—had been "tied in with Willie Bioff and racketeers. He said that he has absolutely no doubt but that our theory of the AFM contributing to the rise of MCA is correct. This would be reflected by the minutes of AFM . . . that it was his recollection that no big-band leader ever won a dispute against MCA. . . . He said that Stein and Petrillo were great buddies and they were the closest of associates. They always spoke very highly of one another. He is sure that Petrillo did favors for Jules Stein. He was not surprised to learn that Petrillo acquired a block of MCA stock."

Posner noted that his source "became quite excited as the interview progressed. He said he had had a vast amount of experience in the big-band field. He was sure we were correct in suspecting that AFM had contributed to the rise of MCA and to its eventual 'lock' on big bands." When asked to compare the ethics of AFM with those of SAG, the source replied that he felt that there were many dishonest people in leadership positions in SAG, and that he "had long believed they did not really try to represent the rank and file of actors in their union. He said that we would find that Ronald Reagan was president of SAG at the time that MCA was given the waiver. . . . He was absolutely convinced that the Screen Actors Guild blanket waiver had contributed to MCA's achieving dominance in the field of television film production."

Other sources began to corroborate what Posner's industry source had told him about AFM and SAG. On June 7, he interviewed another top industry source, whom he described as "completely honest." Swearing the source to secrecy about their conversation, Posner asked about the MCA-SAG waiver. The source replied that "at least one other

talent agency had asked for a blanket waiver and had been refused." He agreed with Posner that no company could become involved in film production without such a waiver and "thought it strange that only MCA had been granted this."

Posner asked about Ronald Reagan. "Ronald Reagan," the source said, "is a complete slave of MCA who would do their bidding on anything." He added that he "would not be surprised to find that some type of consideration had passed between the top people in SAG and MCA to [cement] the deal."

He then repeated that it was "extremely likely that SAG had contributed to MCA's rise in the television film production industry exactly as the AFM had helped MCA in its control of big bands."

Another source told Posner on July 11, "[I]t is unconscionable for the Screen Actors Guild to continue permitting MCA a blanket waiver when it goes against all the rules of conflict of interest."

## CHAPTER TWENTY-TWO

ON AUGUST 22, Nicholas Zapple asked Posner if the Antitrust Division's investigation would be harmed if his Senate subcommittee did one of two things: either called twelve to fifteen witnesses for a series of limited hearings on MCA, or called those people to testify who were already on the record about their feelings toward MCA. Posner felt that both of these alternatives would be harmful.

When Zapple asked why, Posner replied, "It would, at least, illustrate for MCA the main areas of thrust which they could expect to be exploited during an antitrust case. Hence, they would shore up their defenses against these areas, and seek ways of explaining away the testimony of these persons. . . . I told Zapple that in my estimation there was no possibility of using surprise as a means of catching MCA off base and that the only thing we could do was to prepare a very solid foundation for a case."

Three days later, on August 25, Attorney General Robert Kennedy authorized a federal grand jury to be convened in the Southern District of New York to investigate the numerous charges against MCA. In his request for authorization, Lee Loevinger charged that "MCA's power has created fear of retaliation, including the 'blacklist' of talent and the boycotting of producers from access to 'name' talent. The alleged exis-

tence of boycotts, blacklists, predatory practices, and per se violations (such as 'tie-ins') may provide a basis for a criminal suit, and thus makes desirable the empaneling of a grand jury." Loevinger added that "no grant of immunity to any of MCA's top executives is planned."

On August 28, Paul Laskin from the Senate Committee on Juvenile Delinquency told Posner that soon "the lid would be off" on the Senate's proposed investigation of MCA. Posner pleaded with Laskin "that it was vitally important within the next few weeks that we get no publicity at all insomuch as we were going to the [West] Coast to try to unearth certain information with respect to practices of MCA."

"When are you going to indict MCA?" Laskin asked sharply.

Posner said, "I told Laskin that because of the type of action that he himself had indicated might be contemplated, it was vitally important that our witnesses not be disclosed, and that their testimony not be made known to MCA. I explained that in all criminal cases, defendants make strenuous efforts to obtain the minutes of the grand jury, and to obtain by inspection thereof the testimony of the chief witnesses who would be marshaled against them, and that such defendants also commonly make great efforts to obtain lists of witnesses."

Laskin finally said that he was sympathetic and saw the need for secrecy, asking, however, to be kept informed as to the progress of the case.

On August 28, rumors were flying from coast to coast in the wake of the decision to convene the grand jury. According to the Hollywood gossip, Revue Productions was planning to split off from MCA and merge with Paramount—and Paramount president Barney Balaban was going to yield his job to Lew Wasserman. Simultaneously, SAG was preparing to rescind its blanket waiver to MCA. Posner learned that "SAG is definitely pushing ahead. It will make new demands, and a waiver retraction will be one of these." In a memorandum to his files, Posner wondered whether it was "significant" that SAG was acting at the exact time that Revue appeared to be preparing to split from MCA.

On Friday, September 8, the Screen Actors Guild jolted the television production industry when it announced that it had voted to eliminate the waivers enabling talent agencies to produce shows, effective December 31, 1961—although SAG stated that it could grant a six-month extension.

The question became: What would MCA do now? Would it try to divest itself in advance of the deadline? Would it apply for the sixmonth extension? How would it retain as much control as possible over its empire, even after it was broken up?

Four days later, Posner received information that "MCA has already moved a considerable amount of its personnel to Revue.... Wasserman has been in Europe but is due back about now." However, Posner also learned that SAG had no intention of policing the breakup—"so long as there is a legal separation, SAG will not care whether or not there is a practical separation." As far as Posner was concerned—from what he had learned from his sources—a mere cosmetic separation would keep MCA in violation of federal antitrust laws.<sup>3</sup>

Had SAG—which could have been charged with restraint of trade by virtue of its singular blanket waiver to MCA—simply bought itself out of legal jeopardy by its sudden action? SAG's good faith was immediately questioned, particularly considering the union's cozy past with MCA. Posner's sources speculated also that the whole waiver scenario between SAG and MCA had resulted from the fact "that certain actors had been instrumental in the granting of the MCA waivers, and that possibly this may have been due to promises by MCA to the actors that they would get a reward via certain tax-saver corporations."

Another prominent theory, based on some evidence, was "that an aggressive corporation like MCA would not be apt to split off cleanly but there would remain certain close rapport between their officials [in MCA and SAG] for a number of years after this supposed divestiture."

Was there a secret deal? John Dales, the executive secretary of SAG, said, "Oh, no. Our attorney Bill Burger and my assistant, Chet Migden, and I met with Wasserman and [SAG counsel Laurence] Beilenson, and [we] told them that we were not going to renew the waiver."

On September 18, Loevinger was told by his antitrust lawyers that "if the split-off were genuine, it might possibly eliminate the most important element of the case, and could possibly lead to abandonment."

Posner and his colleagues recommended that the Justice Department continue the FBI investigation and accelerate the grand jury by immediately calling witnesses. Loevinger agreed. "The way to keep pressure on MCA," he said, "was to push ahead with the grand jury as hard as possible," even though he realized that "the MCA split-off might seriously impair our case."

The immediate problem was procedural, one of empaneling a grand jury. For this antitrust case, twenty-three jurors would be selected by a random drawing from a pool of 125–150 persons. (There is always a danger that some of the prospective jurors may have connections with the company under investigation.) October 10 would be the earliest date

that a grand jury could be seated. In the interim, the Justice Department began compiling its witness list and subpoenas, and started reviewing FBI reports and its own interviews.

During a conference with the FBI on October 2, special agents lamented that the results of their interviews had been "disappointing." According to Posner, "They ran headlong into the principal problem of this investigation, i.e., fear of MCA."

The FBI was given more time, and the Antitrust Division decided to postpone the grand jury and move it from New York to Los Angeles. They asked Robert Kennedy for authorization. The attorney general gave his approval but in a handwritten note on the memorandum stated, "However, I want a summary of info we have developed on this. . . ."

On October 31, Posner received an official copy of the recent special MCA-SAG agreement, which had been negotiated on October 24. According to the Justice Department's analysis of the document, "MCA will keep the same people in the talent agency as subagents. Moreover, MCA will keep in the same lieutenants who will be responsible to, and have loyalty to, the same MCA subagents. . . . There is little doubt that the new SAG-MCA agreement provides that MCA will spin off Revue. However, MCA personnel will still be manning the talent agency." The agreement also stated that MCA would have until September 30, 1962, to make a decision whether to divest itself of the talent agency or its film production company.

Under the agreement, MCA could buy the stock of a motion picture studio. There had been published reports in some newspapers that MCA was considering the purchase of either Paramount or Universal. Further, only the representation of screen actors was affected under the agreement. MCA could continue to represent producers, directors, and writers.

In a letter to its membership, dated October 31, 1961, the SAG board informed its members of its ultimatum to MCA but added, "The Guild board believes it to be a foregone conclusion that MCA will surrender the agency franchise and maintain and probably expand production activities."

The Justice Department report also stated that "the members of the Artists' Managers Guild [representing talent agents] were incensed because MCA, one of its members, was conducting secret negotiations with SAG without informing the rest of the members. The deal between SAG and MCA was conducted in strict secrecy, and many of the

members of the Artists' Managers Guild are still apprehensive that there are elements of the negotiations which they do not know and that MCA in giving up its waiver may have gotten other considerations and privileges not yet announced by SAG.\*

As the process of selection for the federal grand jury in Los Angeles began, the Antitrust Division summarized its case for Robert Kennedy in a long memorandum. Aside from the three hundred witnesses interviewed by the FBI, the antitrust attorneys had talked to another 150 industry sources. The memorandum to the Attorney General charged that a variety of antitrust violations had been engaged in by MCA, including:

- 1. Attempt to monopolize the trade in name talent;
- 2. Attempt to monopolize the production of TV film programs;
- 3. Conspiracy with the Screen Actors Guild to monopolize the trade in name talent:
- 4. Conspiracy with the Screen Actors Guild to monopolize TV film program productions; and
- 5. Restraint of trade in name talent and TV film program production by (a) contract with SAG, (b) tie-in sales and contracts with networks, (c) "shadow" or extorted payments for services not actually rendered, (d) foreclosure of independent producers from market, (e) discrimination between talent clients of MCA and producers represented by MCA in order to serve MCA's interests, and (f) predatory practices.

"It is likely that MCA saw in television the opportunity for an operation similar to that by which it had obtained control of bands and radio band programs," Loevinger wrote. "The union which parallels in TV film programming the operation of the AFM is the Screen Actors Guild.

"MCA obtained the only blanket waiver granted by SAG to a talent agency to engage in the production of television film on a permanent

<sup>\*</sup>On October 10, 1961, SAG granted an "MCA-type waiver" to another member of the Artists' Managers Guild, GAC, which was represented by attorney Abe Fortas of the Washington, D.C., law firm of Arnold, Fortas and Porter—in the midst of rumors that GAC was preparing to purchase Desilu Studios. According to George Chandler, Reagan's successor as SAG president, "A request from General Artist Corporation for an MCA-type waiver, signed by Herbert J. Siegel, September 27, 1961, was received by the Guild shortly thereafter. This was his only request for such waiver. It was considered by the board of directors of the Guild on October 9, 1961, and granted. The actual waiver was dated October 10.... Whether this request had any connection with a purchase of Desilu Studios was never revealed to the Guild by Mr. Siegel."

basis [with the exception of that provided to GAC a few weeks earlier]. . . . We also hope to prove that the grant of this *blanket* waiver was effectuated by a conspiracy between MCA and SAG."

Loevinger concluded his report by saying: "We expect to present witnesses to the grand jury as rapidly as possible."

By mid-November, the grand jury had started calling witnesses. Posner continued to conduct the investigation. John Fricano of the Trial Section of the Antitrust Division and E. C. Stone of its New York office handled the questioning of the witnesses, who included Cary Grant and Danny Kaye, as well as a variety of industry executives, agents, producers, directors, and writers.

The FBI received reports that MCA tried to intimidate at least one witness, warning actor Joseph Cotten that MCA officials would receive a copy of his testimony, and that his film career would be affected accordingly.

## CHAPTER TWENTY-THREE

ON FEBRUARY 5, 1962, John Fricano prepared to question the man whom he hoped would shed new light on the relationship between MCA and the Screen Actors Guild. That afternoon, Ronald Reagan, wearing casual clothes after spending the morning shooting a new episode on the set of *General Electric Theater*, stepped to the witness stand and took the oath.

The following is a verbatim transcript of Ronald Reagan's February 5, 1962, secret testimony before the federal grand jury in Los Angeles, investigating alleged violations of antitrust and criminal laws by MCA. The original transcript, taken down by certified shorthand reporter Lucille Girlow, contained occasional misspellings and typographical errors, which have been corrected by the author in brackets. This is the first time this document has been published in its entirety.\*

<sup>&</sup>quot;State your name and residence address," John Fricano asked.

<sup>&</sup>quot;Ronald Reagan, 1669 San Onofre Drive."

<sup>&</sup>quot;What is your profession, Mr. Reagan?"

<sup>\*</sup>Excerpts have been published by *Daily Variety* reporter David Robb, who uncovered the document, and Dan E. Moldea and Jeff Goldberg in *City Paper*. (See bibliography, p. 365, under heading "On Ronald Reagan and MCA.")

"Actor, I think."

"I think the Grand Jury recognizes you, Mr. Reagan. We will dispense with the usual formalities. However, very briefly will you state for the record your history, as it were, [of] being in the entertainment industry."

"I graduated from college in 1933. I became a radio sports announcer in the Midwest. [Four] years later in 1937 I went under contract to Warner Brothers Studios here in Hollywood to make motion pictures, most of which are showing up on the late late show, and in 1954 [sic] while I was at Warner Brothers, with renewals of the seven-year contract until 1949 at which time we rewrote the last two years of a contract, the last three years of a contract to one picture a year for three years with no exclusivity. I had the right to go outside to make pictures for other companies. I did those three pictures and then was a free lance. In 1954 I took my present job with the General Electric Theater."

"In 1937, Mr. Reagan, when you were under contract to Warner Brothers, by whom were you represented?"

"MCA, oh, wait a minute."

"1937?"

"William [Meiklejohn]."

"Who was your next agent after Mr. [Meiklejohn]?"

"MCA. In a way, still both of them, William [Meiklejohn] Agency. MCA had never been in the motion picture representation field and they decided to come into the field and they did it by buying William [Meiklejohn] Agency and taking six of us who were clients as the first motion picture clients of MCA."

"Do you recall who the other five were?"

"Bill Demarest was one I know. Jane Wyman was one, I don't recall the rest beyond that. I know three of us. I think there were six. Could have varied one or two but I always referred to it as six."

"Do you recall when MCA acquired the William [Meiklejohn] Agency?"

"I think around 1939 or '40 but my memory is a little hazy there."

"Have you been represented by MCA since 1939 or '40 when William [Meiklejohn] was acquired by MCA?"

"Yes. Could I volunteer something here? I wouldn't want these ladies and gentlemen to think that I wouldn't wear a shirt and necktie to come down here. They caught me at the studio. I had no choice."

"Revue [Productions'] studio?"

"Yes."

"When was your first excursion into television, Mr. Reagan?"

"Well, that would have been in the period—oh, dear, that would be just prior to 1954. I would say in the year and a half or so prior to 1954 I did some guest shots. I did a few shows, both live and film, and I did them both here and in New York. It was new and you want to get your seat wet a little bit and find out what it is all about and at first it seemed like radio. We always did things like Lux Radio Theater and I did a few shows of that kind."

"Who was your personal agent at MCA when you first went to the organization?"

"Lew Wasserman."

"Have you ever had any other personal agent?"

"Yes, as Lew went more into the administrative end, becoming president of the company, Art [Park] has been my particular agent."

"And he has handled you more or less exclusively since Mr. Wasserman gave up his duties?"

"Yes, except in MCA, when you have been around this long, you still go to Lew Wasserman on some matters and with Art and also they have a system there, it seems to me, of having men assigned to particular studios and a man is assigned like Irving Salkow to television. So many times you are offered a guest shot and it will come through Irving Salkow because that is his department and he is assigned to that as a department, not to me as an individual. If I have any question about rates or whether I should do it or not, I would take it up with Art [Park] and discuss it with him in relation to any problems we might have."

"Returning once again, if we may, to the time when you went to MCA in 1939 or '40. What type of contracts did you sign with MCA?"

"Oh, I never read them but they were the regular contract that is provided for by the arrangement with the Screen Actors Guild, the regular agency contract which I have helped negotiate those contracts with the agents when I was an officer and board member with the Guild, and yet I can't remember where we made the changes. I know sometimes we shortened the time they were to hold you, that an agent company could hold an actor, but whatever it was it—"

"Well, did you sign an exclusive contract with MCA to the effect they would represent you in all media?"

"Yes."

"In which you appear?"

"Yes."

"I don't know if they had what was known as a package representation as early as 1939 or '40. Do you know if you had such a contract?"

"I wouldn't know. There were times back there every once in a while the things come in the mail and you sign it if you are satisfied with the agent. Sometimes there were, I remember, some period[s] in which I signed additional for representation in additional fields."

"Have you ever refused to sign any contract of representation by MCA?"

"No."

"Then we can assume that you at the present time have the regular SAG contract for talent representation with MCA, that they represent you in all media in which you might appear which might be television, radio, and motion pictures, and also that you have with them a package representation contract; that's correct, is it not?"

"I would say so, yes."

"Do you know of your own personal knowledge whether you have such contracts with MCA at this time?"

"Well, now, if my life depended on it, no. I just signed what was sent and sent it back."

"I think we can fairly assume that Mr. Reagan had such contracts. Did MCA ever condition representation by them of your signing of any contract?"

"No."

"What unions are you a member of, Mr. Reagan?"

"Screen Actors Guild and AFTRA. I have been a member, in addition, of the American Guild of Variety Artists for a brief time when I made personal appearances."

"How long have you been a member of AFTRA? When did you first become a member?"

"Well, it was just radio, the Radio Guild, and I imagine that was probably about the same time when I came out here and joined the Screen Actors Guild. In my early days of sports announcing in the Midwest, we didn't know about such things. We were all out in the open with no unions, no union representing, when this organization was created."

"Do you recall when you became a member of SAG?"

"Yes, when I came here and signed my contract with Warner Brothers."

"1937?"

"Yes."

"What positions have you held in SAG since you became a member in 1937?"

"Well, I have probably held twenty years of membership total as a board member. I briefly was a vice-president and I had six and a half terms as president."

"Do you recall the years that you were president?"

"Yes, I was appointed to fill out the term of a resigning president around 1946 or '47. I served five and a half years then and refused to run anymore but served on the board continuously until a couple of years ago, I guess 1959 or '60. I became president again for one year. Just shortly before the end of that year [I] resigned."

"Then you were president of Screen Actors Guild in July 1952?"
"Yes."

"And you were a member of the board of directors in June 1954?"
"Yes."

"What committees have you served on, Mr. Reagan, of the Screen Actors Guild?"

"Well, the negotiating committee for years back."

"Would that be negotiations with respect to both motion picture studios and television production companies?"

"Yes, and negotiations also—I have been on the negotiating committee to negotiate the basic agreement between the Artists' Managers Guild, the agent."

"Of June 30, 1954?"

"Yes. Then I have been on committees that had to do with trying to work out arrangements between ourselves and AFTRA over the question of jurisdiction of television."

"In what year was the jurisdictional dispute between AFTRA and SAG settled?"

"Oh-"

"That was with respect to TV film?"

"That went on for a great many years. I hope it's settled now. I think it was settled—I would have to say, isn't that awful, it's been about a year and a half or two years when we finally refused, the Screen Actors Guild refused any idea of a joint merger into one union."

"That's right, sir. I think you have misapprehended my question and I will rephrase it, if I may. There was in the early '50s, was there not, a dispute between AFTRA and SAG as to which union would have jurisdiction of TV films?"

"That's right."

"Was that dispute settled at that time?"

"Well, it was settled to the extent that we had jurisdiction of film,

although AFTRA really never gave in. They always protested and claimed that we shouldn't have. We were the only one in the talent field, when television came we were the only ones that gave up jurisdiction of television. We were the only ones that found ourselves in trouble because when we gave up we didn't think we were giving up the right to negotiate for actors to negotiate with motion picture studios and making film[s]."

"Do you recall, sir, whether or not AFTRA and SAG went before the National Labor Relations Board to settle the jurisdictional dispute over TV film?"

"I think there were thirteen of those appearances. AFTRA I think filed about thirteen times."

"There were thirteen suits but I am referring specifically to the one in which the NLRB decided with respect to TV film. Was that in [1951]?"

"I think it was."

"In that year SAG received jurisdiction of TV film?"

"According to the NLRB in that suit, yes."

"When SAG received jurisdiction in TV film, what then did it have to do, what procedures did it follow to actually implement its jurisdiction?"

"We then had to negotiate for the working conditions and wages of films made for television. We also had to negotiate for motion picture distribution."

"Were these as such carried on?"

"Yes."

"Do you remember the year of such negotiations?"

"I know this seems silly but you are asking about an awful lot of years of memory."

"Let me try to refresh your recollection if I may, Mr. Reagan. I think we have already established that in [1951] the NLRB settled the SAG-AFTRA jurisdictional dispute, correct?"

"Yes."

"Then another followed closely?"

"I think in [1951] the negotiations—we would have ended these negotiations."

"Do you recall with what companies SAG negotiated at this time?"

"Well, again we had to negotiate with the major producers, major motion picture studios, even though many of them weren't engaged in television. We realized this, of course, was where the battle would have to be won or lost and then we negotiated with the group representing the ten independent motion picture producers of TV."

"Does the name 'Alliance of TV Film Producers' ring a bell with you?"

"Yes, that's right."

"So then negotiations took place with the major motion picture production companies and with the Alliance of Television Film Producers, correct?"

"Yes."

"Do you recall with which companies SAG negotiated in the motion picture film—for TV film production, of course?"

"Well, now I may be wrong in this but it seems to me, once having cleared the decks and negotiated, I think we negotiated with the motion picture producers as an association with the major studios in addition to the Alliance."

"Did these negotiations, to the best of your knowledge, sir, take place generally simultaneously?"

"That again—my memory would be pretty dim on. I would think, yes. Maybe—I don't honestly know."

"What was the big point at issue in the negotiations with TV film production companies in 1952?"

"Well, of course, the biggest point of all was to recognize the principle of residual payments for actors in films once made, that they would be paid again when those films were run."

"That was the dispute that was going on between SAG and this union at this time, correct?"

"Well, that was to get—naturally the studios after fifty years of operating on a basis of once they had the film in the can it was theirs, they resisted at this idea of anyone having a lien against that film and they did not have complete ownership of it. One studio head said, 'It's mine to throw off the end of the dock if I want.' I made some that I wish he had."

"In point of fact, television was a dirty word in the motion picture industry in 1952?"

"That's right."

"It's also a fact, is it, Mr. Reagan, that the first company to capitulate with respect to repayment for reuse was a TV production company?"

"I am sure that would have been the Alliance, yes."

"Which company, whether a member of the Alliance or not, was the first to capitulate with respect to repayment for reruns?"

"There you have me. I wouldn't know where we cracked that and if you tell me I'll have to take your word for it."

"Well, you were president of the Screen Actors Guild in 1952, were you not?"

"Yes."

"This was a very important matter which Screen Actors Guild was taking up and it was the most important point of the Guild?"

"Yes, and I don't want to appear as though I am trying deliberately to be vague, but, as I say, I would like you to realize in my history of holding an office with the Guild, my memory is like a kaleidoscope of meetings, that I am sure if I sat down with someone and started in, I could then recall the details. But I met for seven months twice a day five days a week in an attempt to settle the big jurisdictional question in 1946 and '47. I mean personally for more than eight or nine weeks almost every day in 19—before 1947 as a member of negotiating committees. I mean, it's the length of negotiations that led to the stopgap that led to the release of feature motion pictures to television and I went to New York and I met out here for countless meetings with AFTRA when they were attempting to evade what was our right and jurisdiction."

"I think the grand jury understands, sir, at this time you were very busy and the memory of man is not the greatest faculty he possesses. I will attempt to refresh your recollection with respect to this time period. In the first place, does the fact that I state to you now that MCA was the first, MCA-Revue, that is, was the first to acquiesce to the residual payments help you out in your recollection? Can you substantiate that statement?"

"No, I can't. I honestly can't. I know that many times Jack Dales reported to me as president, he is the executive secretary of the Guild, that he had talked off the record to Lew Wasserman about this problem and about the recognizing of this principle and so forth. When did this occur, when did you say?"

"July 1952. July 23, 1952."

"Well, maybe the fact that I got married in March of 1952 and went on a honeymoon had something to do with my being a little bit hazy."

"I'm glad you raised that point. If we might digress, who is your wife?"

"Nancy Davis."

"Was she a member of the board of directors of SAG in 1952?"
"Yes."

"Do you recall any other unusual or momentous events in 1952 with

respect to SAG's relations with one or more TV film production companies?"

"Well, now what kind of events?"

"In 1952, when you were president of the Screen Actors Guild, did not the Screen Actors Guild grant to MCA what is known in the trade as a blanket or unlimited waiver to produce TV films?"

"Oh, we have granted—I don't know when it exactly started, we granted an extended waiver to MCA to be engaged in production as we had done with other people. Mr. [Feldman], who was an agent and produced feature pictures, we gave him a waiver also."

"That was a limited waiver, limited specifically to two or possibly three productions a year. It was not a blanket or unlimited waiver?" "That's right."

"What is SAG's history with respect to granting waivers in either media, motion pictures [or] television prior to 1952?"

"Oh, well, I would have to say there must have been, I am sure, there must have been times when for some reason or another we refused but I am sure also—I can tell you what our general attitude was. Our attitude was where we could see no harm to one of our members, to our membership, that we should do everything we could to encourage production because the great problem we have had has always been unemployment. Even in times of prosperity actors are unemployed. They sit out and wait. If somebody comes to discuss and tell us they want to make pictures, we are inclined to go along with them."

"You would like to have as many production companies making pictures as possible?"

"Yes, in America."

"We have bandied the term 'waiver' about. Let's see if we can be a little more specific about it. Why would it be necessary for a talent agent to apply for a waiver to engage in film production or motion picture production?"

"Well, it was [some] years ago the artists' manager, the agent in our business, agreed voluntarily to let the Screen Actors Guild set up the standard and legitimize the relationship between agent and actor. Up until this time if a man wanted to represent an actor, he might find some young man, make him a star, he could take as much as fifty percent of what they were making. There was nothing to guide it. They voluntarily entered into this arrangement, so we always, in the transposition of negotiating a contract with our employers as employees, and we turned around in turn and then negotiated with the agents as employers."

"If I may summarize what you are saying, Mr. Reagan, that the

necessity for the waiver and the rules which SAG has, requires that a waiver be open talk is because of the fear of a breach of fiduciary relationships which the talent agency has with its clients?"

"That's right."

"Prior to 1952 what talent agencies, if you recall, obtained waivers from Screen Actors Guild and we'll take this ad [seriatim]. First in motion pictures?"

"The only one offhand that I can say that [I] recall was Feldman with his limited waiver."

"But you do recall that it was a limited waiver?"

"Yes. Now, there may have been others. I don't recall them right now."

"Myron Selznick, does that ring a bell?"

"Oh, he was a little before my time."

"You are familiar, are you not, with the waiver granted to MCA in 1952 during your term as president?"

"Yes."

"Can you tell this grand jury why Screen Actors Guild gave to MCA a blanket or unlimited waiver?"

"Well, my own reasoning and one of the reasons perhaps why this doesn't loom so importantly to me is I personally never saw any particular harm in it. I was one who subscribed to the belief, and those were times of great distress in the picture business, I was all for anyone that could give employment. I saw no harm in this happening. Now, anything I would answer from there would be hearsay. I have been told that Revue grew out of MCA's efforts to enter the motion picture industry, in moving into the field of television, and they wouldn't touch it. And when Revue had in their hands the possibility of these packages and couldn't get anyone to produce them, that they set up shop to produce them themselves."

"Do you recall how early this was in point in time?"

"I don't know. I think it was prior to '52."

"It would have been either the latter '40s or 1950?"

"Yes."

"Because Revue had been in production since that time?"

"Yes."

"Do you recall the year Revue first went into production, Mr. Reagan?"

"No, I don't. Television at that time, you must recall, was mostly live and was mostly centered in New York and I knew there were shows called package shows, that you got a chance to do a guest shot. You went to do yours and it was a Revue package. I wasn't even familiar with the name too much. I just called it an MCA package but then that wasn't strange because we had the same thing in radio."

"You have given us your rationale behind your reasons for the blanket waiver to MCA in 1952. What was Screen Actors Guild's reason for granting this waiver?"

"Well, that is very easy to recall. Screen Actors Guild board and executives met in meetings and very carefully considered these things, weighed them at board meetings. I remember discussions taking place about it and usually the result of the discussion would be that we felt we were amply protected, that if any harm started from this, if anything happened to react against the actors' interests—we could always pull the rug out from under them. No great harm would be done before we could ride to the rescue, that our feeling was here was someone that wanted to give actors jobs and that is the way it would usually wind up."

"How many more waivers did Screen Actors Guild grant to talent agents subsequent to the blanket waiver to MCA in order to give actors jobs?"

"I don't recall. I don't know if we did to William Morris or not. When I say I don't know if we did, it was because I was more familiar with William Morris in the live field of packaging."

"Do you know whether any talent agents applied for blanket waivers subsequent to the time SAG granted one to MCA?"

"No. I don't."

"Did Screen Actors Guild attempt to induce agents to enter TV film production subsequent to the time it granted a blanket waiver to MCA?"

"No, I don't think we ever went out and asked anyone to do that."

"That would be consistent with the rationale behind the granting of a blanket waiver, would it not?"

"No, I don't think the Screen Actors Guild is an employment agency. I think we can well recognize our not putting out blocks in the way of anyone who wanted to produce but I don't think ours was the point of trying to go out and get someone to produce."

"In other words, had the blanket waiver been asked by talent agents subsequent to 1952 in July when SAG granted the blanket waiver to MCA, such requests would have been considered by the Guild and granted, correct?"

"If all of the circumstances were the same as, they would be."

"Did you ever hear it said, Mr. Reagan, that Screen Actors Guild

granted a blanket waiver to MCA due to the fact that MCA was willing at this time to grant repayment for reuse of TV films to actors?"
"No. sir."

"I will show you a document marked Grand Jury Exhibit Number 41 from [Laurence] W. Beilenson; do you know who Mr. Beilenson is?" "Yes."

[Fricano reading:] "'To Mr. Lew Wasserman, MCA Artists Limited, re amended Revue-MCA-SAG letter agreement of July 23, 1952.' This letter is dated June 7 [1954]. I will ask you to read Paragraph 1 of this document and see if that doesn't refresh your recollection as to the reason why Screen Actors Guild granted a blanket waiver to MCA. May I read it for you, sir?

"'Should the letter be a superseding letter or an amendment?' And I might add for your information that this dealt with the renewal of the blanket waiver which had been granted in 1952. The original agreement in 1952 extended to '59 but for some reason which we hope to elicit, in 1954 another year was tacked onto that waiver. Continuing, 'I prefer the latter because the letter of July 23, 1952, was executed under a specific set of circumstances where Revue was willing to sign a contract giving the guild members reuse fees when no one else was willing to do so.'"

[Reagan replied:] "Well, then I was wrong but, and I can understand that, but I certainly, I am afraid when I answered before that I was under the impression you were trying to make out that in negotiating a contract we made this as a [bargaining] point of giving a waiver."

"Isn't it conceivable from this language?"

"Mr. Beilenson is a lawyer and in charge of negotiations. It's quite conceivable then if he says it in this letter."

"Does that refresh your recollection, sir?"

"I don't recall it, no."

"In your capacity of president of SAG it was your belief at this time that a waiver should be granted MCA because it would give actors work, is that right?"

"Well, this was always our thinking, yes."

"Did you ever preside at board meetings when other waiver requests were discussed?"

"I am sure I must have."

"Do you recall any of them?"

"I don't really. There weren't too many of those people as I recall that were interested in producing. Feldman, I recall coming up."

"Any other talent agents for TV film production?"

"I wouldn't recall."

"So that you wouldn't know whether or not blanket waiver requests were made by talent agencies, is that correct?"

"I couldn't say whether they were or weren't."

[Fricano said:] "I'll ask that this document be marked as Grand Jury Exhibit 44 for identification. It is a document entitled Screen Actors Guild Board of Directors as of July 1952.

(Whereupon the document was marked Grand Jury Exhibit 44.)

[Still Fricano speaking:] "Mr. Reagan, I will show you Grand Jury Exhibit Number 44 which is Screen Actors Guild Board of Directors as of July 1952, and I will ask you to go down this list and indicate to the best of your information and belief the agent representing each and every [one] of the board of directors."

"Wait a minute. You have me there. I know my wife. When is this? '54?"

"' '52, sir."

"'52. At that time my wife was represented by [Bert] Allenberg."

"She was not represented by MCA?"

"I don't recall the date she went over to MCA. She was not represented by MCA following [Bert] Allenberg's death. She went with a member who had been a member, had been with the [Allenberg] agency, Coryell, and nothing happened there although she wasn't really working at having a career after we got married. So I happened to be the one who suggested to her one day why she didn't talk to Art [Park] about representation. This was after Mr. Coryell had admitted to her, because she only wanted now and then to work when it wouldn't interfere with being a wife and mother, that he didn't feel that his agency was set up to handle her on that basis. They had to devote their efforts to actors and actresses who were out of work and wanted to work and she spoke to Art and went over. I don't know. A lot of people are always changing agencies. I am looking here, trying to see if I can see a name that rings a bell."

"Why don't we take them ad [seriatim] and I will read them. Ronald Reagan we know MCA. William Holden?"

"Bill Holden is with Feldman."

"Walter Pidgeon?"

"I don't know."

"John Lund?"

"I don't know. Never asked him."

"Paul Harvey?"

"I don't know."

- "George Chandler?"
- "I don't know George."
- "Leon Ames?"
- "No."
- "Edward Arnold?"

"Look, let me save you some time here. You don't particularly talk to people about this or ask. It just never occurred to me to ask who someone's agency was."

"I understand that, sir, but we are hoping you can assist this grand jury and give some information. If we call upon your expertise, we would be most appreciative."

"Bill Holden happens to be my very close friend so we used to talk over our business problems and I would hear what he said to Feldman and he would hear what I said to Art [Park]. I knew Nancy, of course. Many of these supporting players are with agents that deal in that sort of thing. This could have been true of a Chandler, of Leon Ames. They are with agents that deal in that kind of work, in the kind of parts they get, and I never bothered myself with it. It didn't seem to make any difference. I could tell you, whether his name is on there, that Van Heflin is in and out of MCA like somebody going in and out of a department store. He was always falling in and out of love with them. You never know about him."

- "Did Mr. Heflin have a few hard times?"
- "He was always in hard times. He enjoys hard times."

"Let's digress for a minute. What complaints did Mr. Heflin have against MCA?"

"Oh, everything. That he played the wrong part and they should have stopped [him] from playing it, or he didn't get the right part and they should have gotten it for him. This was true of whoever he worked for. I like Van very much, don't get me wrong. He is just one of those fellows who enjoys being unhappy. When he was under contract to Metro they were the worst people in the world."

- "Let's continue with the names here."
- "It might come that I could recall."
- "Gertrude Astor?"
- "No."
- "Ward Bond?"

"Oh, Ward Bond, I don't know. I don't know who he was with then. I think later he did go with MCA, whether before or after Wagon Train I will never know."

"Macdonald Carey?"

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"I don't know."
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"I would guess that Ann would be with one of those smaller agents that handle supporting players."

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"Nancy Davis?"
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"Well, I told you she went through a couple of them and by marriage—"

"I'm sorry, sir, I forgot the fact that she was your wife."

"Rosemary De Camp?"

"Well, Bill Demarest I would have to guess unless he changed was with them because, as I told you, he was one of the original clients that went with MCA."

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"So he was MCA?"
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"Glenn Ford it seems to me, and I could be wrong, but somehow it seems to me like Glenn Ford sounds like the Allenberg Agency."

"What about Tyrone Power?"

"Golly! I think Ty Power was with what used to be the William Morris office."

"Robert Preston?"

"I wouldn't know."

"Frank Lovejoy?"

"Frank Lovejoy I don't think was with MCA but I wouldn't know who he was with."

"At this time, sir, in 1952, did you have any discussions with anyone at MCA-Revue or any of its affiliated corporations or divisions with respect to the blanket waiver which it had requested from the Screen Actors Guild?"

<sup>&</sup>quot;Richard Carlson?"

<sup>&</sup>quot;I don't think he was with MCA but I don't recall."

<sup>&</sup>quot;Chick Chandler?"

<sup>&</sup>quot;No."

<sup>&</sup>quot;Fred Clark?"

<sup>&</sup>quot;No."

<sup>&</sup>quot;Wendell Corey?"

<sup>&</sup>quot;No, I wouldn't know."

<sup>&</sup>quot;Ann Cornwall?"

<sup>&</sup>quot;I don't know."

<sup>&</sup>quot;William Demarest?"

<sup>&</sup>quot;Yes."

<sup>&</sup>quot;Frank Thielan?"

<sup>&</sup>quot;No."

<sup>&</sup>quot;Glenn Ford?"

"No, not that I know of."

"Do you recall at all discussing this matter with personnel from MCA?"

"No, although I can't recall about that seeing them as much as I do, meeting as we do, that this very possibly could have been discussed but any discussions as such, would be in the files of the Guild."

"Well, either official or otherwise?"

"Not out of the regular negotiations with the agent and so forth."

"Do you recall whether or not you participated in the negotiations held by MCA and SAG with respect to the blanket waiver in July of 1952?"

"No, I think I have already told you I don't recall that. I don't recall. There were times when I wasn't involved on a committee. Whether that is one of them or not I wouldn't recall. I must tell you that I always told Jack Dales in the Guild that I realized I felt a little self-conscious sometimes about that, lest there might ever be a misunderstanding because of the fact that I had been so long with MCA, and sometimes I kind of ran for cover and was very happy to duck a committee duty in these matters."

"Because of the possibility of some conflict of interest that might arise?"

"That's right."

"Inadvertently or otherwise?"

"That's right."

"Do you recall if in 1952 you made the statement to Mr. Dales in connection with the Letter Agreement of July 1952?"

"I don't recall. I know I have very frequently told Mr. Dales my own feeling, that I have never seen any harm in this and felt they had filled a great gap in giving employment at a time when unemployment was quite heavy."

"Do you recall, sir, whether or not you spoke at board meetings or other negotiating committee meetings as a director of the Guild in 1952 in favor of the blanket waiver to MCA?"

"I always placed myself in favor. As I told you, I was one of the group that could see no harm because if ever harm developed, we always saw the ability to pull ourselves out of it and we favored someone giving jobs."

"Did you participate in any negotiations in 1954 on SAG's behalf with respect to a waiver to MCA? I refer specifically to June 4 of 1954 when the Letter Agreement of July 23 was extended another year. Did you participate in any way in those negotiations?"

"I don't honestly recall. You know something? You keep saying [1954] in the summer. I think maybe one of the reasons I don't recall was because I feel that in the summer of [1954] I was up in Glacier National Park making a cowboy picture for [RKO,] Ben Bogeaus Productions, so it's very possible there were some things going on that I would not participate in but I have no recollection of this particularly."

"I would like to know, sir, if you can tell the grand jury why in June of 1954 the blanket waiver to MCA was extended and the negotiations which SAG held with MCA were private negotiations, whereas twenty-four days later, negotiations were held for other talent agencies who had also requested waivers and the waivers which those agencies [received] were limited waivers?"

"I wouldn't be able to tell you."

"Were you aware of the fact?"

"I will say one thing. I don't know what you are getting at with the question and I am certainly in no position to infer that I want to tell you what to do or not. I can only say this. I have tried to make plain why my memory could be so hazy on a great many things whether it had to do with this or not because of the long years and participation in all of these in which days of meetings would be devoted to one particular point in a producer's contract or something. I can only say this, that in all of my years with the Screen Actors Guild I have never known of or participated in anything, nor has the Guild, that ever in any way was based on anything but what we honestly believed was for the best interests of the actor and, however it may look now as to the point of private negotiations or anything else, if there was—"

"If I may say one thing, sir, we do not mean to cast any aspersions on Screen Actors Guild. I think at this point the grand jury would be inclined to agree with you. The Screen Actors Guild is looking out for its members as it should as a union. I would just like to see if you can shed any light with hindsight on negotiations which took place at this time between SAG and MCA."

"In view of what is shown in Mr. Beilenson's letter, it is very possible at that time, in spite of my not remembering, it is very possible that we saw an opportunity to break the solid back of the motion picture industry with regard to residuals and if we saw that kind of thing we moved in, as we did in the most recent strike when we found one studio, Universal, which would break the unit of the motion picture studios and we signed a separate contract with them. You can refer to those as secret negotiations. I met in an apartment in Beverly Hills—"

"I didn't use the word 'secret' in speaking of the negotiations that took place between SAG and MCA. That was your word."

"Well, I met privately with the president of Universal Studios and we walked out with the contract and were about to face the rest of the producers with one of their number had broken this rank and willingly signed a contract to pay repayments. This could very well have taken place. I can see where MCA would be in an untenable position. They wouldn't represent actors and deny actors the right to residual payments."

"But the fact remains that according to Mr. Beilenson's letter, he states that 'we gave you residuals when no one else in the industry would,' and you have already stated, sir, that residuals at this time were a very important bargaining point between the guild, not only the TV producers, but also the motion picture production companies, is that right?"

"Yes."

"I might begin by calling these facts to your attention and the fact alone that you recalled that residuals were important at this time, that it might ring a bell with you as to the reason why at this time Screen Actors Guild granted a waiver to MCA of the type that it did."

"No, it doesn't."

"Were you aware, sir, that in 1954 negotiations did take place between MCA and Screen Actors Guild with respect to the waiver which had been entered in 1952?"

"No. It's like saying what I was doing on October 25, the night of the murder."

"I don't care what you were doing October 25."

"I mean you pick a year that is going back eight years and you say, where were you. I have to try to picture what [hassle] the Guild was in at that time."

"Take your time and think about it. I don't expect an immediate answer."

"I don't know. The Guild—"

"Do you recall now, sir, whether or not you were aware in 1954 of the renegotiations of the Letter of Agreement of 1952 between Screen Actors Guild and MCA?"

"All I can say, usually these negotiations and things of that kind seemed to fall in the even years. So I would say probably 1954, yes, this would be. To tell you of my own memory, in my mind I can tell you whether we did or not, no, I can't. Serving with Screen Actors Guild long years of negotiating on meetings for a long time, just retaining

things that happened, the lawyers' reports and then so forth, and then you find yourself in a battle like we had with the communists or with the strikes."

"Excuse me, sir, I don't mean to interrupt you, but we would like to focus on this one question. Is your answer—I don't quite understand it quite frankly but is it your answer at this time you do not remember whether or not you were aware of the 1954 negotiations between Screen Actors Guild and MCA?"

"That's right."

"In other words, my presentation to you this afternoon came not as a surprise possibly but—"

"Well, yes, you are asking me thing[s] I haven't thought about for a long time, as a matter of fact, I [didn't] think about too much then."

"The fact that you hadn't thought about it too much either now or then is somewhat immaterial to the purposes of our investigation. My only question is at this point whether or not you were aware of this 1954 renegotiation of the MCA blanket waiver?"

"If it was going on, I must have been aware of it."

"But you have no independent recollection whatsoever at this time?"

"No. And all of this, including the opinions of myself, is vague at the Guild on everything that took place for all those years all the way back including whether I was present or not."

"I assume, then, sir, you would not be able to answer my next question, but I will ask it in any event. The original Letter Agreement of 1952 extended the waiver to MCA until 1959. In 1954 when this was, if we may use the term, renegotiated, it was extended for another year to December 1960. Do you know why it was extended for another year?"

"No, although very probably it could have been to arrange our own setup. Very many times I know we discussed getting contracts, contract negotiations in sequences where we didn't find ourselves all at once going in three directions. Very possibly this could have been to arrange it with regard to when other contracts such as the producers' contract expired. I don't know."

"That was speculation on your part right now as a possibility of why it may have been extended?"

"Yes."

"Do you know for a fact whether or not this was the case?"

"No, I don't although I say this is a thing that frequently came up and our office staff would be turned loose to see if we couldn't arrange some way. I know—you are awakening a memory. Some place along

the line I remember extending the Artists' Managers contract, I am sure, to get it out of the way because we were producer negotiators and we didn't want to have to meet the agency negotiations at this same time. We just don't have that much manpower."

"There was a contract between Screen Actors Guild and Artists' Managers Guild November 1 of 1949. It was amended June 30, 1954, and primarily to include the television supplement or rule 16-E?"\*

"Yes, but don't you find we had a little opening there? Was that blanket waiver that we couldn't interfere with it?"

"There were certain conditions but they were minimal. The letter is addressed, by the way, to both MCA-Revue. The letter states that you will waive commissions and that type of thing but other than that it is very, very general and proceeded entirely from the limited waiver which was granted by Screen Actors Guild to other television film producers, to wit, there was a paragraph in the [former] waiver which states that if an agent receiving the waiver extended its production scope any degree, he may lose his franchise, as [contrasted] with the MCA waiver which was granting an unlimited, almost as many productions as they could possibly produce. There is a marked difference."

"There is a marked difference between an agent and an agency that has a subsidiary production company which is in the production business."

"It's my understanding from reading Rule 16-E that the primary obligation of the talent agency, whether or not it is also a television company, is acting as a talent agency not a production company."

"Yes, but how many of those other talent agents would have a subsidiary corporation?"

"We don't know how many would have set up a subsidiary had they received a blanket waiver."

"I think that might have—"

"Would that have been a condition precedent to granting a blanket waiver?"

"No, but I don't see how we could have refused them."

"Did you participate in negotiations leading to amended Rule 16-E which is the Screen Actors Guild rule dealing—actually it's the agreement between SAG and AMG. Did you participate in these?"

"I think I negotiated probably. What was the year of that first one?"

<sup>\*</sup>Rule 16-E required all SAG members to use only agents and subagents franchised by SAG when seeking screen-acting employment. In a Justice Department memorandum, dated May 13, 1955, the Antitrust Division charged that the requirement was illegal, because SAG "does not have the right to establish a 'white list' of agents with whom its members can deal."

"The first one is November 1, 1949. It was amended on June 1, 1954."

"I know I participated in the 1949 ones. I am not sure that I was a member of that committee that went on to amend and negotiate the next. As a matter of fact, it seems to me maybe the minutes will show I am wrong but I think I kind of ran for cover and ducked on that."

"Do you recall any discussions with other members of Screen Actors Guild, be they members of the board of directors or just union members, with respect to waivers to talent agents?"

"This was always a subject of discussion among actors whether they should or shouldn't. As I told you, I always held the other view. There were actors who always believed there were no extenuating circumstances. An agent should be an agent."

"Who were those actors?"

"Oh, some of them on the board. It's sort of a general thing."

"Can you recall anyone specifically, in your many discussions concerning waivers on Screen Actors Guild, a member who voiced a dissenting opinion, didn't agree with yours?"

"This would be terribly unfair if I tried to name. A name comes to my mind but I can't be sure that he was. Chick Chandler I think had voiced his feelings, not that he would say 'no, I'm against it' and I don't doubt he would go along, but he would say, 'I think we are wrong and this shouldn't go on.' To pick out individuals—which tooth of the buzz saw cuts you?"

"Do you recall ever having any discussions with Mr. Wasserman concerning waivers?"

"If they were, they were, no, I don't really recall. I was going to say they would be social and so forth. I was always very conscious of my position in the Guild and also my relationship with Lew and he was very conscious of it also."

"My question is still, sir, do you recall ever having had any discussion or discussions, be they at a cocktail party or anywhere, where you discussed waivers?"

"It's possible we did, but I don't recall."

"You do not recall but it is possible?"

"Yes. It would not be beyond reason that I would express myself to him that I believed that this was right, although I don't recall [ever] doing it."

"But you held that opinion in 1952. Is it likely, sir, that you might have expressed it to Mr. Wasserman?"

"Might have, yes."

"Do you recall whether you did?"

"I do not recall."

"Do you recall whether you expressed your opinion to Mr. [Park]? "I doubt it."

"Do you recall whether or not either Messrs. [Park] or Wasserman asked you your opinion with respect to waivers?"

"That I am sure they never did."

"I will ask you the question very generally with respect to MCA, had you ever had such discussions with any other personnel at MCA?"
"No."

"Do you recall, sir, who was the leading TV production company as of 1952?"

"1952 I didn't interest myself particularly of how they rated or how they stood. I wasn't in television. I don't know. I don't know when Screen Gems started. Wait a minute, I'm sure they had to be started because I did some shows. I am dating everything from my marriage. I don't know who would be in the lead. I know Screen Gems was under way. Hal Roach, Jr., was making a great many television shows at the time."

"Was Revue in contention at this time?"

"They might have been."

"They were one of the biggest?"

"They were?"

"I am asking you, weren't they?"

"Oh, they could have been. As I told you, a great deal of television in those days was in New York and centered there."

"When did you first start with GE Theater?"

" '54."

"What were the terms under which you appeared in the GE Theater?"

"I was not to [exceed] six shows. That was my own contention because I didn't want to over-expose myself. I introduced all of the shows and closed them out. I specifically refuse to do commercials and I don't think an actor should, and I did a number of weeks of touring for the company, visiting plants and employees, meeting the employees and appearing publicly, speaking and so forth, speaking speeches as a part of General Electric's employee and community relations program, because our show is under the institutional program."

"This was as early as 1954?"

"That's right."

- "This was part of the contract?"
- "That's right."
- "Who negotiated your contract for GE Theater, Mr. Reagan?"
- "Well, my first approach—do you mean with me?"
- "No. Who represented you?"
- "Art [Park]."
- "With whom did he negotiate?"

"Art [Park] would have negotiated-well, first of all, it was Revue through Taft Schreiber who approached me. I turned down regular television shows a great deal. I did not feel-most actors were a little gun-shy of a series. I had been approached and offered seriously by other people. I kept holding out for motion pictures. Taft Schreiber finally told me of this client that was leaving a musical show, which turned out to be The Fred Waring Show, and they had an idea if they could move in with a certain type of show, that this sponsor would listen and they outlined to me the plan. They were going to submit an anthology, which is our type of show. Anthologies had been singularly unsuccessful and they felt the reason was because there was no continuing personality on which to hang the production and advertising of the show. So they were going to solve it by having a host, me, if I would do the job. Well, it met all of my previous objections; first of all, I couldn't be over-exposed and it would be made economically possible to get a good enough income out of the show to tie myself up for that time, and following that time it rested there until, while they then went in through BBD&O, the advertising agency, to sell to General Electric. At this point now came the discussion about me and where I sit and then Art [Park] negotiated with Revue and I am sure with representation by BBD&O, because I ended up as an employee of Batten, Barton, Durstine and Osborn, the advertising agency."

"How did that happen?"

"Well, it happened because the agency did not want me to be an employee of Revue. They felt that this, as later I was told, they felt this would put Revue, if this thing clicked and if I were the principal character of the show, it would give Revue more bargaining power than they wanted them to have with regard to future production. So they wanted control of me as an employee. Usually it's done that way. The sponsor won't have us as an employee. The sponsor doesn't want to have to justify an actor to the stockholders but he can justify so much for advertising and you are part of advertising. So I was employed by BBD&O."

"How long are the terms of the contract?"

"Five years with [a] one-way option, meaning I have to work for five years but they can drop me any one of those five."

"You were salaried?"

"I was salaried."

"Had Art [Park] attempted to obtain any ownership interest for you in the GE Theater?"

"No, when the show started the show was basically live so this was not an issue. We did a few pilots because we knew there were actors who still work on live television. The bulk of the show was made of live television shows."

"Is it unusual for an actor, a performer as yourself, to have an ownership in a live program?"

"This is very possible also but you must recall the only thing I would have been able to bargain for at this point was with the few shows I was in because my opening and closing did not go on beyond *General Electric*. There was no residual in my introduction of the show. No one else can ever use that."

"Did you discuss the possibility of an ownership interest in GE Theater in 1954 with anyone?"

"No."

"You did not discuss it with Art [Park]?"

"No, the main point of contention, and this became a great point of contention between Revue and MCA, was over a little idiosyncrasy of mine. In all the time I had ever done guest shows when I had done them on film I had always refused to sell the foreign motion picture rights. Many actors who do film television, when it's on film, they give up for their television fee the right to show that picture in foreign theatres. As a practical point I never wanted my pictures, which I know are made at a different budget for television, to ever have to compete on a motion picture screen with motion pictures made at a cost of millions of dollars. I didn't think it was fair for me as a performer. Revue wanted, if I wanted any of the show, they wanted the right to show them as they did other actors in the motion picture theatre. It finally came to a point when Art [Park], on my behalf, wouldn't give in. So Art [Park] who is a vice-president and Taft Schreiber who is a vice-president in charge of Revue went and took the problem to the head school teacher, Lew Wasserman, who is the president of the whole works and Lew Wasserman asked Art [Park] which he thought in a decision of this kind what was best for me as a performer and both Taft and Art had to admit naturally it was best for me as a performer not to give up the motion

picture rights and it was Wasserman who said then, there is no question he doesn't give up his motion picture rights."

"Mr. Wasserman arbitrated the dispute between [Park] and Schreiber?"

"And ruled in my favor."

"So then ownership never came into the picture in 1954?"

"No, television—it's hard to think those few years back—television was pretty new. I had been offered ownership in some series that had been offered to me in which I would play a continuing part but, you see, the main bargaining value that an actor has in getting that kind of ownership is on his service as an actor. We are talking about a thing in which at the moment I would only appear in three or four and the rest would be live shows and I would only appear in three or four of these. Also, it happened when this came along I didn't have much bargaining power and I practically sat for fourteen months without a day's work in the motion pictures. They weren't beating a path to my door offering me parts and this television show came riding along, the cavalry to the rescue."

"They were beating a path to your door with respect to other TV series, were they not?"

"I was offered several and that is a lot. Seems like a lot. I was offered several which I wouldn't accept. I didn't believe I wanted to live in New York."

"Limiting our investigation here to the TV media, any of the offers which you received prior to your acceptance of the *GE Theater* in 1954, did they have ownership interests to them?"

"The offers to me?"

"That's correct."

"Oh, yes, when you are offered a part and they want you to play every week for thirteen weeks, of course, they offer you an interest in the show."

"So you had experiences with being offered interest?"

"Yes."

"In television shows?"

"Yes."

"Yet in 1954 when you signed the contract to perform in GE Theater, the ownership interest angle never occurred to you?"

"No, because that was not the kind of show supplemented [sic] to that. As I told you, we didn't know if we were going to be successful. We had nothing to go on."

"Well, nothing is known to be successful. It's not known. You are

taking a chance any time. My question is directed to whether it occurred to you in 1954?"

"No."

"That you should have one?"

"I was very satisfied with the money that was offered."

"You did not discuss it with Mr. [Park]?"

"No."

"Will you tell this grand jury what your salary was for GE Theater in 1954?"

"I think it started at \$120,000."

"Was that a year?"

"А уеаг."

"Break that down."

"A year."

"You were not paid by the number of shows."

"No. It was prorated, at my request, prorated to a fifty-two-weekyear payment."

"Which would mean \$10,000—no, you said \$120,000?"

"\$10,000 a month. I think that puts me in the eighty-percent bracket."

"Did the show appear fifty-two weeks in the 1955 season?"

"No, we re-run through the summer. We review old shows through the summer."

"In 1957, in one season, GE Theater was on the air two times?"

"Not quite. You always give up a couple pre-emptions. Every show does. The network has the right to put on another show if they take your Sunday night away from you."

"Loosely speaking, you made approximately \$2,500 a show, is that correct?"

"It figures out to that."

"That is all the monies that you realized from 1954 to 1955?"

"No, there was a graduated salary. It went up a little bit each of those five years. I don't recall now just how many but there was an increase, but for the two years it stayed. Then, as it proved itself, there was a little premium for continuing."

"When did it first occur to you, sir, that you should have an owner-ship interest in the GE Theater?"

"Along the end of the five years. We had been moving up the number of pictures we were making instead of live, and I was very instrumental, I never missed a chance to bedevil General Electric, that they would do better on screen than live. We were moving up and we made the decision just about the last year or so of the five-year deal. We made the decision to go all film. Now, this deal did not increase. That was, it decreased the number of shows I was in. I was still doing only about four shows a year. But each year while I have had an option that could be taken up each year, each year Revue had to go to bat with the agency and General Electric to see whether they would produce the show. They received no credit for having produced a successful show. Their general business policy is we are going to talk to all the producing companies and see how they can do this."

"General Electric is a great believer [in] competition?"

"Yes, both within and without the company. As a matter of fact, they proved it by firing guys you gentlemen were engaged with recently. Each time I had to, sir, wait to see if my option was going to be taken up and finally as it was evidenced, that show was successful and as it was evidenced, this would be recognized. General Electric was having me go on tours. Each year I go on these tours all over the country and make speeches. This had a great impact. It was never done by anyone in the television business so it was apparent that I had a value, a relationship with General Electric that was probably sufficient over and beyond the show, that if the show wasn't successful they would still retain me. I was employed by BBD&O. As a matter of fact, Revue at my request tried to get General Electric and BBD&O to let me produce several of the shows because I wasn't getting credit as being a producer, actually being in back of the actual productions. They resisted. They didn't want me to ever have that much authority."

"When you say 'they,' you mean BBD&O and General Electric?" "They liked it the way it was. So finally at the end of the five years at this point General Electric, the agency, went out to CBS. They went to Four Star. They went to Screen Gems. Even to some independent production companies and they weren't going to buy a new show. They went to these companies and I always frankly felt it was a little funny. It was kind of rough going. They used to go to them and say, 'We want the same kind of show which you have, now what kind of a deal can we get from you fellows if you produce these shows?"

"What companies?"

"Four Star, Dick Powell, Screen Gems, CBS. CBS was always competing with Revue, trying to do the show. At the end of the five-year contract I had had MCA expiring with General Electric and BBD&O, if there wasn't some way I could cut down my senior partner, the Department of Internal Revenue, and start building something for the future, instead of taking everything in straight income."

"Was this your own idea or was this suggested to you by somebody else?"

"This was my own idea. We tried in every way and we ran into the fact that I wasn't a GE employee so I wasn't eligible for any of their pension plans and so forth. BBD&O didn't have anything like that. All they could think was maybe withholding some more and creating a pension fund but this didn't sound satisfactory to me. At the end of five years they wanted to come in and talk again and I wanted to keep one foot in the clear because if you wait until March, as they had made me wait for five years to talk about options, and they don't take up the option, you are out a year's employment. It's too late to launch yourself into another program if you should suddenly want to go into that kind of setup. I'd be working every five years whether they were going to take up an option. We'll let them worry about the other end, as to whether they are going to have me next year. Now, at the end of—it was at this time that they went out with the negotiation year coming up, the sixth year of the show, that they really came close to going in other directions and I got calls. For example, Dick Powell, he asked me, it had been made plain to everyone, CBS and everyone, that there would be no dealing and it did not look good that General Electric insisted that I be part of it and he asked if I had any relationship with Revue that makes this impossible, and I said, 'Dick, I have kept out of it completely, no, I am not employed by the advertising agency. I value my relationship with General Electric. I think I have established that.' I said, 'I have not entered into it,' and I told him, I said, 'Dick, you know, I would, of course, enjoy very much working for you.' I have known him for many years. We were veterans of the Warner Brothers battle and I told him—so I said, 'I stand pat.' I naturally had a loyalty to the fellows at Revue. We have been making a show and doing a good job. So I am out of it. Once they see who is going to make the show, then I will make my decision about where I do it. I said, 'You know, of course, I would love to work with you.' CBS, I have heard since, has talked around and gossiped that the reason they didn't get the show was because I refused to go along if they produced the show, and that is an out-and-out lie, and the only reason they are saying that is because they have to save their face."

"How did Revue compete successfully for each renewal contract with General Electric?"

"Well, I suppose they had a way of negotiating for them and had been successful."

"And the fact that this is an anthology and they could guarantee talent?"

"I don't think any more than anyone else could. Dick Powell is, for example, a fine anthology show. I did shows, single guest shots. I did a show for The June Allyson Theater. I have done guest shows for those other companies. Actors go where there is a good show. I think one of the things that happened was that MCA recognized there was no financial benefit because no one—this business costs the same wherever you make it. A show is a show and costs so much money. I think they personally came back to where they had success. Now, at this time in dealing with these companies I was told that they had said this, too, that I would have to go with them. They reassured me. They wanted me. They said they had asked these companies if they were prepared to do whatever was necessary to get me and Dick Powell and CBS had both said they would be willing to work out some arrangement involving ownership in the show. Now, all films—there are no secrets in the business. I know this. Dick Powell told me, as a matter of fact, told me what my situation would be. At the time I was amused because I knew BBD&O and GE didn't realize in this we were negotiating to produce the show. The thing they always resisted was my employment with the company. I called Lew Wasserman and I told him what I knew. I said, 'Lew, it's now apparent to me, as it must be to you, that I represent a certain measure of the success of the show. In other words, I am now in a bargaining position that I wasn't in when the show started. We are approaching negotiations so I have a question. I have known you many years. I want to know one thing.' I asked Lew Wasserman, 'In the show for General Electric what are my services worth to go on with General Electric?' and Lew said, 'That's a very good question and it deserves a very good answer.' He said, 'I'm going to the Springs and I'll let you know when I get back.'

"When he came back he called me. He said, 'The answer is,' and he gave it to me, and it was a salary comparable to what I was getting plus twenty-five percent in the films, even those films in which I am not engaged. This was more than any of the other fellows offered."

"Mr. Wasserman had guaranteed to you at this time, and if I misstate it in any way, please correct me, he stated at this time that you would receive from Revue Productions the terms which he had told you. In other words, he would assure that Revue gave you these terms, is that correct?"

"That's right."

"Is that what he told you?"
"Yes."

"Would you please relate again because I lost the thread. Directly what ownership interest did Wasserman say Revue would give you?"

"That it was comparable to the salary I was getting plus the fact, by now becoming an employee of Revue, I no longer paid MCA commission. So that automatically gave me a ten-percent raise in salary, and they gave me twenty-five-percent ownership in all films made in the GE Theater, not just those in which I appeared, but all of them."

"Did Mr. Wasserman in this call Mr. Schreiber or anyone else at Revue?"

"Mr. Schreiber was in the office."

"Mr. Schreiber was present at the time?"

"Yes."

"Did Wasserman advise Schreiber to make such a form available in a future contract by you and Revue?"

"Well, he didn't have to. They were sort of sitting like you two gentlemen are sitting so it was obvious one was speaking but they were both agreeing."

"In other words, Wasserman was speaking and Schreiber was nodding his head like a mare?"

"That's right."

"Have you been advised at any time during the period 1954 to 1959 by anyone that you should have an ownership in GE Theater?"

"Oh, yes."

"By whom?"

"Well, along toward the last year or so when it was obvious we were hot and successful, we were a top show, and we had become film, why, there were people then who thought, knowing the circumstances, the fact that I was on a five-year contract, were throwing up their hands in horror. One was an agent, Mr. Coryell, said this. I should be and so forth. Dick Powell, and, as I say, I am very fond of Dick, we are old friends. Yes, it had now come to the point, there was no justification for this and I was in such a bargaining position that this would be proper compensation. I did not feel—in the earlier years I thought I had a pretty good deal."

"Did you call an attorney or any type of advisor, Mr. Reagan, with respect to your contract with Revue which gives you part ownership of *GE Theater* or did MCA act completely with Revue in this regard?"

"Oh, no, when it got down to details of working out the actual terms of employment contract and so forth and we negotiated also a thing in

the employment contract of extra money also into the buildup of a retirement fund for tax purposes, then I talked—I had to talk to a lawyer, of course, and—"

"Who?"

"I have a business manager and I talked to my business manager."

"Who is he?"

"David Martin. There was no question of talking to anyone as far as I was concerned about the terms. I know the business. I know what I think is fair and I was, frankly, very pleased and happy and thought that I had about all the traffic could bear and—"

"In other words, you feel MCA-Revue gave you the best possible deal?"

"Yes, because I will tell you something. My contention was I thought I only had a right to bargain for ownership of the films in which I appeared. I have been out on the road for several weeks now and they have made a few pictures. I haven't even read the pictures and I own twenty-five percent of them."

"When do you think you will realize the money from ownership?"

"I think several years."

"When the films that are being made now go into—"

"Distribution and they go out. I have had some slight percentage of residuals of guest shows I did on film before I went to work before. Some have brought in some money, some don't."

"The first one in syndication of the films which are presently being made will not give you any money, correct?"

"I doubt it because we run a little loss."

"Don't say 'we.' You are running that loss. Revue isn't."

"No. Of course, let me put it this way: the sponsor does not pay the full cost of producing our film. They cost more than the sponsor pays to get his first run of the film."

"You mean Revue sells them cut rate?"

"This is quite common with many companies. The ownership of the film belonging to the producing company and not to the sponsor is the profit in many of these. Now, there is always an extra benefit."

"Let's stick to the track, Mr. Reagan. Revue is selling the General Electric Theater, right now, each series below what it costs them to produce, both below- and above-the-line costs. Are they still in the black with respect to these films?"

"I'm sure the packaging fee and their distribution and so forth, I am sure that they must have."

"They will still be in the black?"

"Probably."

"And you won't go back into the black, as it were, for many years?"

"Wait a minute. In the meantime I am drawing a pretty handsome salary. I am not just working for an ownership."

"That's correct, sir, but in fact you do have an ownership that might not be realized for several years?"

"Yes, I don't want to get it for several years. Right now my senior partner claims all of it."

"The Internal Revenue again. In any event, you are personally satisfied with this arrangement?"

"Yes, so satisfied that I have, since the arrangement was made, told people I wasn't interested once or twice when they have proposed another series to me, leaving the *General Electric Theater* to do another series in which I would have even more ownership."

"Have you had any offers by other TV producers other than Revue over the last five years?"

"Yes, I have been sounded as to what my position was with regard to *GE Theater*, could I do another series and so forth, and I have had to say, no, I can't do another series. It's exclusive and I'm sorry."

"What other discussions or conferences has Lew Wasserman mediated in your presence aside from what you have already related?"

"Those were the only two I remember, the one about foreign film rights and the one about the terms."

"You can't recall ever having been in the presence of Lew Wasserman and Taft Schreiber before in which you were interested in what was being discussed?"

"No, I don't."

"Have you ever met anyone, sir, who has told you that they had sent a script or inquired about your availability from Mr. [Park] or some other MCA official and was informed that you were not available which fact was never conveyed to you?"

"No; as a matter of fact, Mr. Park is very, very sure that he always sees that I know of every inquiry made of my services, whether speaking to a luncheon club or show or not. Just from that point alone he has repeatedly assured me that he makes sure I know all. He lets me know even when he thinks that there are some things that are so ridiculous that I call him back and ask him if he was out of his mind for bringing them and then he tells me the reason he brought it to me was because—"

"Did you ever express any discontent or complaint or any ire, as it

were, with respect to the contract which MCA negotiated with respect to BBD&O and GE in 1954 to MCA?"

"No."

"You never complained?"

"Oh, yes, I have had one complaint and it was solved very easily. We almost made a mistake. We didn't know BBD&O and General Electric asked for twenty weeks a year of my traveling when we first started. I refused to go for twenty and got it down to sixteen. This was supposed to be in two tours of eight weeks and it only took us seven, because GE sent a man with me on the tour so he could get as flat-footed and tired as I was. It only took us about five of the eight weeks to know we had bitten off more than we could swallow. No man lives to do the eightweek tour, and not give snarling lessons. So they asked me—I must say General Electric was quite nice about this. Wouldn't even bother with Revue or MCA. At the end of this tour General Electric asked me what I thought should be the amount of time we could handle and we boiled it down to about twelve weeks, not to [exceed] three or four weeks [at a time]."

"Did you state this to MCA as a complaint?"

"No, I didn't need to. I stated it to General Electric."

"My question was, sir, have you ever complained to MCA concerning the initial contract which they entered into?"

"Oh, no."

"For GE or BBD&O in 1954?"

"No. Then after the end of the twelve weeks or so as we began to make more film and less live shows, I then one day out here said to MCA or Revue, it could have been either one, said, 'Next year let's tell the fellows we can't handle this many weeks.' I finally got it down to six weeks a year and last year they got it up to eight again on me so eight weeks is the limit of the tour, not to [exceed] two weeks away at any time."

[Fricano then asked the grand jury foreman:] "Mr. Hauer, does the grand jury have any questions of this witness?"

[A juror asked Reagan:] "Are you still working for BBD&O or are you working now exclusively for MCA?"

"I am now on an employment contract within which I have a partnership interest with Revue."

[A juror:] "You are under contract to BBD&O, is that correct?"

"No, by doing this other thing they now had to take the thing they didn't want to do at first. BBD&O has had to—by the fact that I was

their employee if they wanted me they had to take Revue. This had never before existed until I wanted this change of ownership of the films. There was some hassling between Revue and BBD&O about that. BBD&O resisted but they were in an untenable position because they didn't have anything comparable to offer me."

[A juror:] "Mr. Reagan, does your salary on these tours, I mean, do you get any extra salary for the tours you make or is it included?"

"It's included in the salary, although General Electric pro-rates a portion of my salary as being for those tours."

[A juror:] "And does MCA get a portion of that?"

"No. When I was a BBD&O employee, MCA took its usual commission of my salary. When this other arrangement was entered into, MCA lost the commission because under our actors' contract they can't take a commission."

[A juror:] "I was going to ask you, Mr. Reagan, did anyone from MCA know you were called in this afternoon?"

"No. Well, wait a minute. I laughed this morning and told a few of the fellows at Revue, we were rehearsing the start of a new show, and I told them they had to get me clear because I had an appointment down with you folks. So the only thing I told them before I came down, I would come back and let them know if they were still working for Revue or not."

[Fricano asked:] "With whom did you have these conversations?"

"Stan Rubin, the executive producer of the show, the director we have hired for this particular show we are doing, and Jeanne Crain. She is going to be the leading lady on the show. We had lunch together before I came down."

[Fricano continued:] "Did anybody from MCA tell you they knew you were going to appear before this grand jury?"

"No."

"The only discussions you had with MCA personnel were the ones you had today?"

"At lunch when I told them where I was going after I called and found out the time I was to come."

[A juror:] "Off the record, please."

(Off the record discussion.)

[Fricano asked:] "Just to clear up one point, sir, for my own benefit. At what time did Mr. Wasserman tell you what your terms could be with Revue, as having a percentage interest, that is, in the General Electric Theater; what year was this, do you remember?"

"It would take in all of last year's shows and as a matter of fact, it

was retroactive because we had already started producing and so forth and so it included shows that had already been made."

"Do you recall the year, sir, when you first entered into the contract with Revue giving you a production interest?"

"Well, now, wait a minute. I was on the five years of salary. I did one year which would have been 1959 and '60 season, yes."

"It was either '60 or '61?"

"I am certain for the shows of the '60 and '61 season and now the '61-'62 season."

"Do you remember what year it was that you had the discussion with Mr. Wasserman concerning your ownership interest in the GE Theater?"

"Yes, that would have been when we were talking about the production of the shows for last season which would have been in the spring of '59."

"That was when you had the conversation with Mr. Wasserman?" "Yes."

"And Mr. Schreiber?"

"Yes."

[The grand jury foreman said:] "No other questions, Mr. Fricano." [Fricano added:] "Mr. Reagan, the grand jury is finished with you for the moment. Actually, you are still under subpoena, sir. If we require your presence again, we will so notify you."

## CHAPTER TWENTY-FOUR

WHEN RONALD REAGAN regained his memory, he would eventually recall the events of that afternoon on February 5, 1962. Three years later—in his 1965 autobiography, Where's the Rest of Me?, which he coauthored with Richard C. Hubler—Reagan wrote that he "had spent a long, unhappy afternoon being interrogated by a federal lawyer who'd seen too many Perry Masons. Feuding is a mild word to use when one is talking of our government's campaign against a private business concern. . . .

"Once on the stand, he launched into a series of questions such as, 'Do you recall a discussion at a Guild board meeting the night of August 16, 1950 (ten years ago), regarding a waiver. . . .' Well, of course, I was not only caught off-guard but . . . I'd lived a lifetime of meetings, and to pick out one for specific questioning was like asking a fellow in a sawmill accident which tooth of the buzz saw cut him first. Before the day ended I was pretty red-necked."

On February 13, a week after Reagan's testimony, the Antitrust Division subpoenaed the Internal Revenue Service for the income tax returns of Ronald and Nancy Reagan for the years 1952-55, the same period that the MCA blanket waiver was approved and reaffirmed while both of the Reagans were on the SAG board. The income tax

returns of John Dales and his assistant, Chet Migden, and four members of the 1952 SAG board were also subpoenaed. However, no charges were filed against anyone.

Two days later, Leonard Posner learned from one of his key sources that MCA was receiving information from the grand jury.

"You mean from witnesses who have appeared?" Posner asked.

"No," his source replied. "MCA has a means of obtaining information from the grand jury itself."

However, when Posner tried to track down the leak on the grand jury, he was unsuccessful.<sup>2</sup>

On March 7, Posner interviewed another industry source with inside knowledge of the MCA-SAG blanket waiver. When asked how the MCA waiver affected competing talent agencies, the source replied that "the effect was drastic" and that the other agencies "could not compete against a talent agency which could promise jobs in television shows. . . . The talent was assured that they would get network exposure if they appeared in a Revue production. They could only get into a Revue production by joining MCA."

Posner wrote that his source told him that "Reagan may have been given the role of host, a most desirable plum, in GE Theater in return for having lent his good offices to see that MCA got the blanket waiver. He explained it this way: Reagan in 1952 was at the end of the road as far as [his] motion picture career was concerned. He was having a rough time. . . . Within a short time later, the concept of GE Theater apparently developed and after some months of preparation, the series went into production. [The source] thought it likely that Reagan had been given a promise of the role as host of GE Theater as consideration for his keeping actors in line. He also said that it was possible that Reagan may have sincerely believed that he was helping actors get jobs. However, he said that undoubtedly . . . [the idea that] MCA was going to be able to go into production and get a lot of jobs for hungry actors in television was completely fallacious. He said that there were many independent producers who were then in the television film production films [sic] that would have been necessary to fill whatever needs the networks had for television production, and consequently to give actors jobs. He said that the only effect of the blanket waiver to MCA alone was to give MCA the dominant part in this television production. It did not increase television production—it merely assured MCA a larger share of whatever television film production there was to be."

At the end of his memorandum, Posner described his source by writing, "He is honest and is giving us every bit of information within

his recollection. He appears to be trustworthy and is not apparently just trying to hurt MCA."

However, Posner had become pessimistic about the government's chances to break up MCA. Convinced that the antitrust action had come too late, Posner felt that the government "was merely locking the barn door after the horse had been stolen."

MCA had already started diverting its operations into other enterprises, including nonentertainment ones. Wasserman had even turned a portion of the Universal backlot into a cemetery and had purchased a bank in Denver, Columbia Savings and Loan Association.

Many of MCA's clients no longer had representation contracts—the traditional agent-artist relationship—with MCA. Instead they had converted them to long-term "employment contracts" to accommodate MCA's television production interests, as well as omnibus contracts which covered foreign engagements and any field not covered by their clients' unions. These agreements stated that even if a client left MCA Artists—by personal choice or forced by the government's antitrust action—MCA would retain perpetual rights to the work done while the client was under contract at MCA. If the government forced the spinoff of MCA Artists, MCA agents were prepared to form their own separate agencies while keeping their business ties with MCA intact.

No matter what the Antitrust Division tried to do, MCA was always a step ahead.

On April 5, Posner received a telephone call from Hy Raskin, an MCA attorney. Raskin said that he wanted to be of service to the Justice Department. "I understand that MCA is somewhat arrogant, and, because of this attitude, people might misunderstand its motives." Raskin added that his only function on behalf of MCA was to help the government "get the facts. If you really knew all the facts, I think you and the government would be satisfied."

Posner replied, "It would be helpful if we had all the facts. . . . Without the facts we won't be able to arrive at a truly valid determination as to our proper course of action."

"I promise you, Mr. Posner, that a change of attitude will be forthcoming in MCA, and that you will begin to get all the facts you really want and need."

Six days later, Allen E. Susman, MCA's lead attorney on the antitrust case, contacted Charles Whittinghill of the Los Angeles antitrust office. Susman said that he wanted to "get together" with the Antitrust Division and "discuss the matter." When Whittinghill asked what he wanted to discuss in particular, Susman replied that MCA would soon be making an offer to the shareholders of the Decca Record Company\* for the purchase of that company and all of its subsidiaries, including Universal Studios. Before Whittinghill had a chance to catch his breath, Susman assured him that MCA would cooperate and supply the government with all information regarding the sale. While Whittinghill waited for Susman to send him a copy of MCA's registration statement filed with the Securities and Exchange Commission, regarding the proposed purchase of Decca and Universal, the Antitrust Division responded to the latest development—and, once again, MCA seemed to have the edge.

In a rare interview, with Murray Schumach of *The New York Times*, Lew Wasserman claimed that he had never submitted a talent package to the motion picture industry—which, the government knew, was utter nonsense.

"We have never made a package deal," Wasserman insisted. "The truth is that presidents of movie companies have asked me if I have a package. I laugh at them. They want us to do their job.

"I know that many of these executives and producers look upon themselves as creative people and upon us as flesh-peddlers. The truth is that one of the reasons agents are needed so badly is because clients cannot trust movie executives. I look upon our agency as a business and a profession."

Sorting out what MCA's takeover of Decca and Universal would mean, Posner was told that "it would have a profound effect on the music business since MCA controls so many artists who do singing and band work that they will have a tremendous competitive edge in the recording field." In the film industry, "MCA will quickly forge to the front in the motion picture production field. . . . It has the best manpower and is acquiring tremendously good manpower from Universal."

Posner also learned that MCA planned "to break cleanly between its talent agency and film production company. . . . MCA will not try to hang on to the talent agency, but will jettison it."

"Wasserman," Posner was told, "will have power in the recording field, motion picture production field, television production field, and sales. Moreover, in Universal he is getting a good distribution organization. No motion picture production company can be successful without some means of distribution."

<sup>\*</sup>Decca had become the fourth-largest recording company in the United States and had a gross income of \$90 million in 1961, as well as company assets totaling over \$73 million.

Posner's fear was that if MCA simply sold MCA Artists to its own agents, nothing would be accomplished by the government's long antitrust investigation. The block-booking and tie-in situations would potentially remain through a newly formed sweetheart relationship between MCA and its former employees.

On June 18, MCA acquired eighty percent of the stock of, and thus the controlling interest in, Decca and Universal, which also included Universal's library of 250 post-1948 feature films—such as *Hamlet*, *Harvey*, and *The Glenn Miller Story*—and nearly 2,500 hours of filmed television programs. The sale had received approval from the company's stockholders two weeks earlier.

Ten days later, during a conversation between the Antitrust Division and MCA's lawyers, the government was notified that MCA would "dispose" of its talent agency on July 18, 1962. However, when the Antitrust Division received the MCA prospectus sent to the SEC on June 29, it referred to "an agreement between MCA and the Screen Actors Guild in which MCA agreed to terminate its activities either in representation of SAG members or in television film production [by July 18]." The government suspected that MCA was trying to stage another charade by simply shuffling its talent agency around but still keeping it under its aegis.

In a letter to Assistant Attorney General Lee Loevinger, the head of the Antitrust Division, from Allen Susman on July 5, MCA assured the government that its talent agency would be "transferred to various present employees of MCA who, upon the transfer being accomplished, will no longer be employed by or connected with MCA in any capacity." Susman added that the purchase price for the agency would be neither secured nor guaranteed, adding that the time and method of payment had not been agreed upon. Loevinger became totally skeptical of MCA's facade of good faith.

The front page of the July 9 issue of *Variety* carried a story entitled, "MCA Spin-off of Agency Set for July 18," explaining that MCA had notified the Screen Actors Guild that it was divorcing itself from direct control of its talent agency.

Wasserman personally announced that Larry Barnett, the fall guy in the 1946 Finley v. MCA antitrust case, was to be appointed as board chairman of the new spin-off agency, and George Chasin, a long-time MCA agent, was expected to be its president. Among the stars Chasin had personally represented were Marilyn Monroe, Marlon Brando, Gregory Peck, Gene Tierney, and Kirk Douglas. Arthur Park, Reagan's day-to-day agent, would also join the new agency. Wasserman

said that he would continue to head the MCA parent company, that Universal would continue to be headed by Milton R. Rackmil, and that Taft Schreiber would continue as president of Revue Productions.

Ultimately, it was MCA's own predictable arrogance that led it into the government's web—when just a few months earlier the government had feared it had no case at all.

Seeing through MCA's smokescreen, the government—after several days of secret meetings and coast-to-coast telegrams—moved ahead, on Friday, July 13, filing a complaint, approved by Attorney General Robert Kennedy, in federal court, and charging that MCA and its subsidiaries had violated the Sherman Antitrust Act. Named as co-conspirators were the Screen Actors Guild for its July 1952 and June 1954 blanket waivers granted to MCA, and the Writers Guild of America, West (formerly the Screen Writers Guild), for its April 1953 MCA waiver. At the same time, the Justice Department filed for and received a ten-day temporary restraining order against MCA, in an attempt to prevent MCA from selling off its talent agency to its former employees on July 18.8

## CHAPTER TWENTY-FIVE

THE GOVERNMENT did not tell the MCA lawyers that a complaint was going to be filed. When Allen Susman and the other MCA attorneys arrived for their meeting with the Antitrust Division on July 13, they were handed a copy of the complaint at the same time it was being filed in court. They were stunned by the suit—and particularly by the temporary restraining order. The MCA attorneys immediately filed a motion with the court to deny the government's request.

When reporters asked MCA executives for comment on the government's litigation, nearly all of them replied, "Ask Lew."

Two days later, Lew Wasserman filed his affidavit with the court, bitterly protesting the complaint and the motion filed by the government, stating:

- 1. I deny that MCA has been guilty of any violations of law or any other alleged wrongful acts charged.
- 2. I deny that MCA has engaged in any conspiracies . . .

As for the assertions . . . that the proposed divestiture may not be "bona fide," the fact is that bona fide negotiations have been taking place between MCA and the proposed owners [of the new

talent agency] for several weeks in an attempt to effectuate an agreement....[I]t has been my personal observation and experience that such proposed owners and employees are devoted men and women who have worked, and will continue to work, honorably, efficiently and with integrity and dedication to serve the best interests of their clients.

The government replied to MCA by filing a motion for a preliminary injunction against the corporation to block its takeover of Decca-Universal. Neither Jules Stein nor Wasserman would comment about the government's latest action.

On Monday, July 16, there was a hearing in the Los Angeles federal court on whether MCA—which had filed motions in opposition to the proposed restraining orders—could divest itself of its talent agency on July 18. In an exchange with Laurence Beilenson—who, along with Susman, was representing MCA—U.S. District Judge William C. Mathes asked, "But this divestiture is a form of merger, isn't it?"

Beilenson replied, "No, Your Honor. You see, the whole thing, everybody has got it backwards about who employs whom. It's the agent that employs the actor. Excuse me. It's the actor who employs the agent. . . ."

Later, still attempting to convince the judge to deny the government's motion, Beilenson said, "It really doesn't make any difference to us, because we are not going to get a nickel out of it, Your Honor. Because if we sell the corporation involved [MCA Artists], it will be stripped where it can be sold for a nominal sum. MCA is not trying to make any money.

"It is not trying to make money out of the transfer of this agency. But it is trying to preserve the orderly share of its talent which it represented for many years and, despite all the allegations of the complainant, have renewed their contracts again and again and stayed with the agency. It's for their benefit, and for the people who served it so long, that they would like the opportunity to make an orderly transfer of the business."

When Posner presented the government's case, Judge Mathes asked, "Let's assume it's a collusive arrangement [the sale of MCA Artists to its own employees]. It's not an arm's-length deal at all, it's a collusive arrangement to continue indirectly what they can't do directly. Wouldn't that all come out later?"

"Yes, Your Honor," Posner replied, "I think that there is some suggestion of that on the face of the documents, since here they are

selling the business that grossed annually 8.4 million dollars for what Mr. Beilenson said that they weren't taking a nickel out of. And MCA, up to now at least, has not had the reputation of being an eleemosynary organization."

"All business concerns are in business to make money," Mathes continued, "and I think one of the great misrepresentations, I'll say, of the twentieth century is the notion that business concerns can be philanthropic. They have no business being philanthropic. Anytime a board of directors or an officer of a business corporation isn't doing everything he can to make every dollar he can for that concern, he is committing a breach of trust."

"I agree, sir," Posner replied, "and that is precisely why the government is suspicious of this transaction. . . . We say that this MCA Artists has been the crux of the leverage which MCA has used to build its violations of the antitrust laws. In effect, we claim that MCA has said, 'If you want this actor, then you must take this program.' MCA has told that to networks. And we have many instances of that. And we say that if this huge pool of name talent is transferred en masse to any other group, and particularly to the old MCA agents, this pool of name talent is going to provide the basis for a leverage for causing the same abuses we have had in the past. . . .

"What we really want is to dissolve this mammoth corporation and turn these actors free to whomever they want."

Judge Mathes granted the government a temporary restraining order against MCA—on the spin-off of its talent agency—until July 23, when a full hearing on all of the government's charges would be held, including the government-proposed injunction against MCA's takeover of Decca-Universal.

That same day, MCA's stock dropped 41/8 points on the New York Stock Exchange.

In an attempt to settle the case, the corporation's attorneys—with their hats in their hands—made a proposal to the government on July 17, asking that MCA be permitted to terminate all of its talent contracts and to obtain a two-month postponement of a preliminary injunction blocking MCA's purchase of Decca-Universal.

Loevinger said that he wanted a provision "that MCA will abrogate any talent employment contracts that MCA has negotiated with itself as a talent agency for production activities of Revue, Decca, or Universal. This would be true if these contracts provide for employment of talent more than six months in advance." Loevinger added that he would be firm on matters concerning the talent agency, but that the

Antitrust Division would be "flexible" on Decca-Universal, permitting the two-month postponement.<sup>1</sup>

At 12:01 A.M. on July 19, MCA's franchise with the Screen Actors Guild to represent television and motion picture artists expired. MCA Artists was forced to set free its 1,400 clients, who were immediately descended upon and wined and dined by the other talent agencies.

Later that day, a California state labor commissioner called Stanley Disney in the Los Angeles antitrust office and informed him that he had just received an application for a license to operate as a talent agency from a California corporation, Management Associates, Ltd., which wanted to do business as International Management Associates, Ltd. Corporate officers included Herbert Brenner and Howard Rubin, both vice-presidents of MCA, who had resigned the previous day. The application also included the names of eight other MCA employees who had submitted their resignations as well and would become IMA personnel. Disney told the official that the application was not in violation of the temporary restraining order.

Heated, secret discussions between lawyers representing the government and MCA continued over the weekend before the court hearing set for Monday, July 23. Drafts of proposed agreements went back and forth.

Finally, on Monday, before the hearing, lawyers for both sides went to Judge Mathes's courtroom. When he arrived, they simply asked him to sign their settlement, stating that MCA would completely dissolve its talent agency without selling it or receiving anything for it. Further, MCA was forced to surrender all of its guild or labor union contracts and licenses regarding its talent agency throughout the world. The settlement did not include any decisions regarding MCA's takeover of Decca-Universal or allegations of MCA's block-booking or tie-in violations; both were to be made separately. The only solace for MCA was that it was not required to admit any civil or criminal guilt.

According to the July 23 Stipulation and Order: "Nothing contained in this order . . . is meant to be nor shall ever be construed or deemed to be an admission of any kind

- "(1) that MCA Inc. admits any of the acts alleged in the complaint or that it admits it is guilty in any respect whatsoever of any violations of the law or that any allegations of the complaint are true or correct;
- "(2) that plaintiff has abandoned any of the allegations of the complaint, or is estopped to pursue any violations alleged therein, or any other violations."

In his victory statement to the press, Posner said that the action

"destroys the power base MCA Inc. used for leverage for its filmed television production."\*

Lew Wasserman issued a short statement, saying, "MCA deeply regrets that circumstances beyond its control precluded the company from having the opportunity to discontinue its talent agency functions in a more orderly manner."

The hearing for the government's motion for a preliminary injunction against MCA's takeover of Decca-Universal was scheduled for July 30. However, MCA quickly asked the government for more time to prepare its case. Posner thought that "it would be to our interest to have the hearing on the motion postponed as long as possible to give ourselves more time to prepare properly, and, if possible, to defer any hearing on Decca-Universal until the trial. My reason for this position was that if that judge hears all the ugly facts about MCA's practices and becomes well acquainted with the beast, and further learns of the large number of MCA acquisitions, he might well resolve any doubts about MCA's having violated Section 7 in our favor."

At a meeting at the Antitrust Division's offices in Los Angeles, Susman tried to negotiate another settlement with the government. Susman insisted that all MCA was trying to do "during the interim period before the trial is to conduct the businesses of MCA, Decca, and Universal in their ordinary way without restraint," adding that "MCA must be free to run its business as it saw fit without interference, and that Decca and Universal must be free to do the same thing."

Since the purchase of Universal, one of the government's biggest concerns was the "competitive impact" of the studio's remaining post-1948 library of feature films and television programs, not earlier purchased by Screen Gems, if MCA indeed gained control of that backlist. The Antitrust Division did not want that to happen; instead they wanted another company, such as Screen Gems or Seven Arts, to obtain the rights to these packages.

However, during Susman's negotiations with the government, he

<sup>\*</sup>Daily Variety's July 24 banner-headlined report of the final settlement, "MCA DISSOLVES ENTIRE AGENCY," written by reporter David Kaufman, must have been particularly painful for MCA loyalists to read:

<sup>&</sup>quot;MCA Inc.'s talent agency, only a week ago the most powerful in the industry, is no more... Obituary for MCA Artists Ltd., the talent arm, was written in U.S. Federal Court yesterday, when MCA and the U.S. government in a stipulation agreement spelled out terms for dissolution of the agency.

<sup>&</sup>quot;Actual death of MCA occurred in such a prosaic, offhand fashion it was like the funeral of a long-forgotten star of yesterday."

Syndicated columnist Jim Bishop, the former director of MCA's literary department, simply described his old employer as "a dead whale."

took the hard line, saying that he could not accept "any limitation on the right of Universal to dispose of its feature film library in any way that it saw fit. . . . If Universal wanted to sell to MCA, that was their business."

Understanding that the government would be opposed to this—but that it would need additional time to prepare its legal arguments—MCA reversed course and asked for the hearing on the government's motion for the preliminary injunction to be held as quickly as possible.

During a telephone conversation with Gordon Spivack of the Antitrust Division's New York office, Posner suggested that the government find some middle ground so that MCA could be permitted to operate Universal through, perhaps, an independent manager until the legal matters were resolved. But Posner also recognized the issue of Universal's backlist as being "the stumbling block . . . possibly the break-off point in our negotiations [with MCA]."

When the compromise was posed to Susman, his response was an angry one. "[N]either MCA nor I did or would agree for one moment that the film library of Universal Pictures Company, Inc., was subject to any restrictions whatsoever under the then existing stipulation, nor would I or my client agree so to restrict or limit the disposition of the Universal film library. That position has not changed one iota."

Preparing for trial with MCA, Loevinger formally requested a full-field FBI investigation of MCA's attempted takeover of Decca-Universal on July 30, 1962. Meantime, over on Santa Monica Boulevard in Beverly Hills, the beautiful MCA citadel—the home of MCA Artists—stood nearly vacant as a handful of employees cleaned out their offices, stepping around the antique-filled cartons scattered about the marble floors.

As the FBI began its work, MCA attorney Hy Raskin visited Posner and Harry Sklarsky, chief of the Antitrust Division's field operations. Raskin said that his client was interested in "entering negotiations with the government for disposition of the entire action against MCA." However, Raskin reiterated that "one thing was not negotiable... the Decca-Universal acquisition by MCA."

The government agreed to negotiate a possible consent decree—approval of a corporate merger—and on August 9 the talks began. Present for the government were Posner and Sklarsky; MCA was represented by Susman, Raskin, and Albert Bickford.

Sklarsky opened the negotiations by addressing the central problem of Universal's library. He argued that "even if an auction for this property is agreed upon and MCA is permitted to participate, the

problem, as I see it, is that MCA could bid as high as it wanted to, because the money would, in effect, be returned to itself—since MCA is the biggest stockholder in Universal. It would be doing nothing more than transferring money from one company to another."

"It doesn't work that way," Susman replied. "MCA is extremely interested in money. And if someone from the outside bids higher than MCA thought it could realize from its distribution operation, then MCA would be happy to let someone else do it. You also have to remember that MCA owns only about seventy percent of Universal, and that the studio's vigorous minority stockholders will be acting as watchdogs, protecting their interests. . . . Also, Universal is now an independently operated company with a separate board of directors and officers."

With little hostility in the discussions and with what appeared to be a sense of mutual good faith, both sides agreed that there was room for compromise. They decided to postpone the hearing on the preliminary injunction until October 15, allowing both sides to better prepare their cases—and leaving time for a possible settlement.

In reality, both sides were playing poker. MCA held its cards close to its chest, privately fearing that the government could rip the corporation apart in court and, perhaps, force MCA to divest itself of Decca-Universal. Across the table—debating whether to call, raise, or fold—the government knew that even if an outside distributor was brought in to handle the Universal library, it would undoubtedly be under MCA's direct or indirect control. But prosecutors would still have to prove that MCA's possession of the library would give it an overpowering position, particularly in the television industry.

In a Justice Department memorandum, written on August 9 after the first round of talks, Stanley Disney said that he "did not believe we could get divestiture, [so] I recommended that they [MCA] negotiate for the best order possible [concerning] the use of the library. Posner said that he also doubted that we could get divestiture of the film library."

On August 14, the second round of talks began. The same cast was present, along with the addition of Robert L. Wright, the Antitrust Division's chief negotiator.

"I understand that the basis for these negotiations is that the acquisition of Decca-Universal is non-negotiable," Wright said. "But I also understand that MCA is prepared to discuss an alternative arrangement with regard to the film library. Is this correct?"

"You are correct," Susman replied.

"Okay, then, gentlemen, what are you prepared to offer in the way of a proposal?"

After spending some time discussing which side was supposed to come prepared with a written proposal, Susman managed to get the conversation back on track. "There is something that could compound our problems," he said. "If, for example, Screen Gems—which already has a formidable backlog—wishes to purchase the Universal film library, they might not do so for fear of being sued by the government in an antitrust action of its own."

"I think that the bidders might well receive some assurances that if they purchase the films the government will not sue them," Wright replied. "I believe this is an important point, because divestiture to an outside source appears to be the only practical way in which this matter can be quickly resolved. If MCA is disposed to have Universal sell to outside companies, this might be the solution to the entire case."

In response to Wright's remarks, the MCA attorneys asked if forty-four movies made after 1958 might be exempted and retained by MCA. Wright asked for details at their scheduled third round of talks the following day.

The issue regarding the post-1958 movies was based on the theory that motion picture films had to play in theatres around the country until they were "milked," after which there was generally a clearance of two to three years before the films were offered to television. Some of the jewels in this collection included *Psycho, Spartacus, Flower Drum Song,* and *To Kill a Mockingbird.* And two television networks, ABC and NBC, were committed to the broadcasting of weekly movies, paying as much as \$300,000 each.

The next day, Wright asked what MCA's position was on the government's divestiture proposal.

"We will not negotiate on that basis," Bickford said, "even if we are permitted to keep a portion of the library. MCA is only willing to negotiate on the basis which it had originally stated: that MCA would have a right to participate in competitive bidding for the film library. MCA has indicated that no other position is negotiable."

Sklarsky replied, "No, we have always been under the impression that MCA's only non-negotiable position was the divestiture of Decca-Universal."

"Okay," Bickford asked, "where do we go from here?"

"My position is this," Wright said firmly. "Unless MCA divests itself of the Universal library, a concentration of power will exist that will be in violation of the antitrust laws. You may go over my head if you

like and discuss this matter with Lee Loevinger, but I would recommend settlement on nothing less than this."

The meeting then ended abruptly, without any plans for further discussions.

The following day, President Kennedy and his brother, the attorney general, received telegrams from the Hollywood AFL Film Council, stating: "Hollywood craftsmen and technicians and creative artists [are] suffering grievously from unemployment caused by the flight of feature motion picture production to foreign countries." A coalition of Hollywood unions dominated by the Screen Actors Guild, the American Federation of Musicians, the Teamsters, and IATSE, the film council lauded MCA for its "plans to create still further job opportunities and continuity of employment for studio workers" and asked the government "to reexamine the advisability of the present attempts of the Antitrust Division of the Department of Justice to prevent MCA from engaging in feature film production."

Both the White House and the Justice Department were baffled by the film council's request since no one in the Antitrust Division had even suggested that MCA be barred from producing films.

On August 22, Raskin, on behalf of MCA, decided to accept Wright's offer and discuss the situation with Loevinger. After several conversations, Loevinger stood behind Wright but offered a variation of the compromise that the MCA attorneys themselves had offered: that a portion of the Universal library be retained by MCA.

Loevinger's intervention into the negotiations brought new life to them. The talks resumed and details were worked out.

Finally, on September 18, Attorney General Robert Kennedy announced that a proposed consent decree had been filed in the United States District Court in Los Angeles, and that the settlement would become effective in thirty days.

The final judgment ordered that Universal Pictures sell 215 of the 229 films in its library. The studio could select fourteen of those films for remakes or reissues. Also, consistent with the conditions of a consent decree, all criminal proceedings against MCA and its alleged co-conspirators were suspended. And the entire case was taken off the public record. Further, Jules Stein, Lew Wasserman, Taft Schreiber, Ronald Reagan, and others avoided having to appear in open court to answer messy questions about their financial relationships.

Two months earlier, MCA had appeared to be dead, but the Department of Justice could not find the means to ram a stake through its heart. MCA would live again.



## THE RESURRECTION



INDEED, MCA and Lew Wasserman were alive and well\*—so well, in fact, that on September 19, 1962, the day after the consent decree was announced, workers began razing the Revue-Universal studio just north of the Hollywood Freeway, in one of the biggest real estate developments in the history of Hollywood. The land was to be cleared for the new, \$110-million home of MCA's production companies. Included among other structures planned for the site, known immediately as "Universal City," were a bank, a post office, the Universal Amphitheatre, and the new, modernized Universal Studios. Universal City would also be the site of MCA's fifteen-story, black-glass-and-marble administration building, the "Black Tower"—which, quite intentionally, stood like a black steel monolith: an ominous presence, at once imposing and intimidating.

MCA's only public comment in the wake of its settlement with the federal government was that it intended, "in complete coordination

<sup>\*</sup>In The New York Times, Murray Schumach wrote: "Financially, MCA is probably in a stronger position than any movie company in Hollywood. Its assets exceed \$80 million. It owns a savings and loan association with assets of more than \$63 million.

<sup>&</sup>quot;Despite MCA's enormous expenditures for expansion in recent years, its net income has risen steadily and last year [1961] reached a record of nearly \$7.5 million. At the start of this year the retained earnings of the company exceeded \$33 million. During 1961 its current assets of some \$50 million were double its current liabilities."

with the management of Decca and Universal, to proceed contructively and vigorously in strengthening the production of motion pictures."

Universal provided MCA with an incredible legacy in film production. Former nickelodeon owner Carl Laemmle had founded the Universal Film Manufacturing Company in June 1912; soon after, the studio started cranking out silent movies, including *The Hunchback of Notre Dame* and *The Phantom of the Opera*, starring Lon Chaney.

Academy Award-winning director William Wyler, who had come to the United States in 1920, when he was eighteen, recalled, "I have a great affectionate feeling for the old Universal. It was my school, my cradle in America. Carl Laemmle . . . brought over dozens of young people from Europe. And not all of them were relatives, although I was. Old man Laemmle gambled on people. Many times he was right. Opportunities were easier to get in those days. Movies were a small business, not overcrowded. Working in films was even a little disreputable, not a sound profession."<sup>2</sup>

In 1930, Universal won its first Academy Award for Best Picture with All Quiet on the Western Front. But, for the most part, Universal became known for its inexpensive Westerns, romantic dramas, and comedies—those films which Laemmle was convinced would attract Middle Americans to their neighborhood theatres. Laemmle was right, and the studio made big money. With the Depression, Universal found itself in financial trouble. Laemmle turned his studio over to his son, Carl Laemmle, Jr., who could do little to turn the family business around. Consequently, in 1936, the Laemmle family was moved out and replaced by Robert H. Cochrane and Nate J. Blumberg, who developed the "new Universal."

But the new Universal was much like the old, as the new owners continued to produce horror films like Son of Frankenstein, even after some success with teenage singer/actress Deanna Durbin's movies, like Three Smart Girls and One Hundred Men and a Girl. But as the country began to slip out of the Depression and into war, the horror films again began to make money. Soon, Universal started to branch out into musicals, such as One Night in the Tropics, and Bud Abbott and Lou Costello comedies, including Abbott and Costello Meet Frankenstein.

Universal's "golden years" culminated just after its November 1946 merger with International Pictures, headed by Leo Spitz—who had negotiated the payoffs in Chicago between Willie Bioff, after he was hooked into the Chicago Mafia, and Barney Balaban, before he became the president of Paramount.

Universal-International made a corporate decision to stop making the second-rate films it had become known for and to attract a classier audience. The studio bought the American distribution rights of J. Arthur Rank Productions, a first-rate English movie company, and thereby acquired such films as Laurence Olivier's Academy Awardwinning production of Hamlet, for which Universal shared its second Best Picture Oscar, and The Lavender Hill Mob and The Man in the White Suit, both starring Alec Guinness. Universal followed with such A-movies as Brute Force and Naked City.

When Universal was bought by Decca Records\* in 1952, it returned to its low-budget films, concentrating on science fiction dramas, like This Island Earth and The Creature from the Black Lagoon, and series comedies featuring Francis the Talking Mule and Ma and Pa Kettle. These box-office successes were followed by a long string of "women's movies," produced by Ross Hunter, ranging from tear-jerkers like Imitation of Life to the Doris Day-Rock Hudson romantic comedies like Pillow Talk.

While the Antitrust Division tied up the loose ends of its litigation against MCA, Wasserman and Allen Susman met with government attorneys Leonard Posner and Malcolm MacArthur for a general discussion on October 1, 1962. According to the report of the meeting, Seven Arts appeared to have the inside track on the Universal post-1948 film library and eventually bought it for \$21.5 million, with a \$7.5 million down payment. The controlling interest in Seven Arts had been purchased by a business syndicate controlled by Louis A. Chesler, a Canadian financier and a long-time associate of Meyer Lansky. Also, Wasserman hinted that MCA would concentrate on the production of major motion pictures and their distribution. Clearly, the meeting between MCA and the government antitrust lawyers was cordial and congenial.3

The day after his meeting with Wasserman, Posner resigned from his job with the Antitrust Division to join a prestigious Beverly Hills law firm, which specialized in protecting the components of the entertainment industry from government tax and antitrust regulations.†

<sup>\*</sup>Decca Records had originally been founded in Great Britain and then moved to the United States after World War II. Among other artists, Decca signed Guy Lombardo, Louis Armstrong, and Bing Crosby. In 1954, Milton Rackmil, who had been responsible for boosting the careers of Bill Haley and the Comets and Buddy Holly and the Crickets, became the president of both Decca and Universal. He remained as the head of Universal after the studio was bought by MCA. †Three months later, Leonard Posner was found dead in his apartment after being stricken by an apparent heart attack. Posner, who had no history of heart trouble, was survived only by his father. No foul play was suspected.

In the wake of the demise of MCA Artists, the biggest winner in the former MCA client sweepstakes was clearly the William Morris Agency, with its rolls climbing to seven hundred actors under contract. At its peak, MCA represented only six hundred actors among its fourteen hundred clients.

Many MCA agents went into business for themselves, including Dave Baumgarten, who set up his own Agency for the Performing Arts, and Herman Citron and Arthur Park, who formed the Artists Agency Corporation, also known as Citron-Park. Other former MCAers, like Irving Salkow and Henry Alper, joined GAC, whose board of directors selected MCA vice-president Larry Barnett as its new president in 1963. Mike Levee, Jr., went with Rosenberg-Coryell, and four of MCA's top New York agents—Bobby Brenner, Kay Brown, Phyllis Jackson, and Jay Sandford—brought nearly one hundred top artists into the stable of the fast-growing Ashley-Steiner Agency. All of these agents remained tight with MCA and were destined to have a significant impact on future MCA productions.

MCA-Revue's television lineup was none too shabby, as it again had a commanding impact for the 1962-63 season. It included such shows as ABC's Wagon Train (which had moved from NBC), Leave It to Beaver, McHale's Navy, and Alcoa Theater; NBC's It's a Man's World, Laramie, and Wide Country; and CBS's continuation of The Jack Benny Show and The Alfred Hitchcock Hour (which had returned from NBC). MCA's total contribution to network television was eleven hours of programming, led by ABC with five hours, NBC's four and one-half hours, and CBS's one and one-half hours.

However, one long-running MCA show was on the verge of biting the dust, CBS's General Electric Theater, featuring Ronald Reagan, then opposite the top-rated Bonanza on NBC.\*

In his role as General Electric's celebrity spokeman, Reagan had become increasingly controversial, bitterly attacking the Kennedy administration for its policies toward big business. Reagan had been particularly incensed by the breakup of MCA, calling the government's action "a meat-ax operation." Reagan started quoting Thomas Paine ("Government is a necessary evil; let us have as little of it as possible") and Justice Oliver Wendell Holmes ("Strike for the jugular. Reduce taxes and spending. Keep government poor and remain free").

<sup>\*</sup>According to a Justice Department memorandum, when GE Theater started having problems, MCA quickly intervened. Wasserman went to Jimmy Stewart and said, "Jimmy, I need a favor. The General Electric Theater has been lagging lately. We need a name. We need you to do a show. Please do it for me." Because of the relationship between Wasserman and Stewart, the actor agreed to do the program, even though he did not want to perform on television.



Barney Balaban (The Academy of Motion Picture Arts and Sciences)



Carl Laemmle (The Academy of Motion Picture Arts and Sciences)



James Caesar Petrillo, president of the American Federation of Musicians

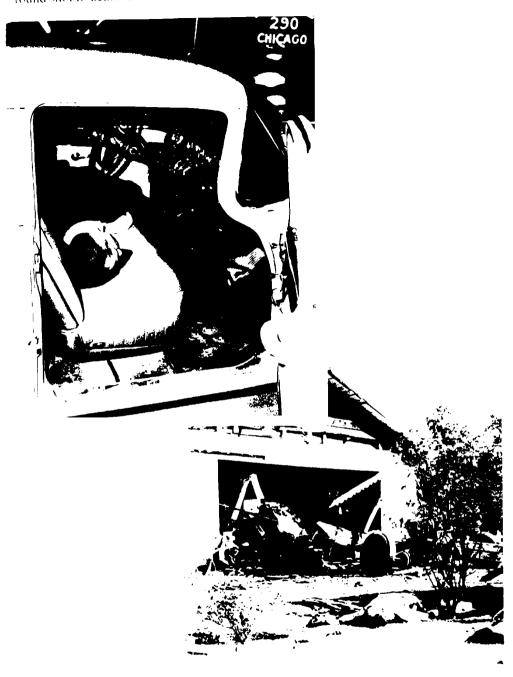


Willie Bioff, head of the International Alliance of Theatrical Stage Employees, leaves the Federal Building in New York after pleading innocent to charges of violating the Federal Antiracketeering Law. Bioff was indicted with William Browne, president of the union, and charged with obtaining money from leading motion picture producers under threat of calling a strike of employees. (AP Wide World Photos)



Four ex-convicts during a House Subcommittee hearing investigating their paroles from federal prison. Clockwise, seated around table (starting from left, rear) are Charles Gioe, Louis Campagna, Attorney Eugene Bernstein, unidentified man, Paul Ricca, and Philip D'Andrea. (AP Wide World Photos)

Charles Gioe, one of seven men convicted in 1943 of conspiring to extort money from the motion picture industry, lies sprawled across front seat of auto, in which he was found shot to death. (AP Wide World Photos)



Willie Bioff, former Hollywood labor racketeer, lies before the wreckage of his pickup truck. Bioff was killed as he stepped on the truck's starter at his home in Phoenix in 1955. (AP/Wide World Photos)

Roy Brewer, Hollywood representative of the International Alliance of Theatrical Stage Employees





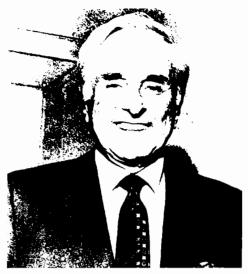
Ronald Reagan, president of the Screen Actors Guild, listens to testimony at the House Un-American Activities Committee Investigation. (AP Wide World Photos)



Sidney Korshak testifies before the Senate Rackets Investigating Committee. (AP/ Wide World Photos)



Taft Schreiber, MCA vice-president, testifying at a 1961 FCC hearing.



Johnny Roselli, overseer of the Chicago Mafia's operations in Hollywood



Paul Ziffren, California Democratic Committee delegate and law partner of William French Smith

Governor Reagan joins Dr. and Mrs. Jules Stein. Stein recieved the Humanitarian Award of Variety Clubs International.



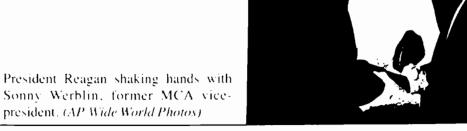


Lew Wasserman



Frank Sinatra is shown in his dressing room at Westchester Premier Theater in New York, 1976. Shown from left to right, standing, are Gregory DePalma, Sinatra, Thomas Marson, the late Carlo Gambino, and Jimmy "the Weasel" Fratianno: in front is Richard "Nerves" Fusco. (AP Wide World Photos)

Senator Paul Laxalt places the name of Ronald Reagan in nomination during the 1976 GOP convention. (AP Wide World Photos)



President Reagan signs documents authorizing Senator Paul Laxalt to establish a committee for his reelection campaign and appointing Laxalt as committee chairman. (AP/Wide World Photos)





Teamsters President Jackie Presser, right, and Labor Secretary Raymond Donovan shake hands prior to a luncheon hosted by Presser at the union's head-quarters in Washington. This was Presser's first day at the helm of the Teamsters. (AP/Wide World Photos)

Teamsters President Jackie Presser, right, goes over papers with his attorney John Climaco during his appearance before the President's Commission on Organized Crime in 1985. Presser invoked the Fifth Amendment fifteen times, refusing to answer questions about violence, his leadership, and policies of the Teamsters union. (AP/Wide World Photos)





Labor Secretary Raymond Donovan leaves Bronx Criminal Court in New York after pleading innocent to criminal charges. (AP Wide World Photos)



Bea and Sidney Korshak



In 1962, influenced by MCA's Jules Stein and Taft Schreiber, Reagan officially switched political parties and became a Republican. Life-long conservative Republicans, Stein and Schreiber had watched Reagan closely on the "mashed-potato circuit" for General Electric and discovered that he was speaking their language. "Both on the air and in the GE plants," wrote Reagan biographer Lou Cannon, "Reagan exceeded even Schreiber's high expectations. . . Reagan accepted the various published descriptions of himself as a 'prominent conservative spokesman,' although he always bridled when the word 'right-winger' was added to the description. He thought of himself as an orthodox and patriotic American who was drawing attention to a problem of government growth that would destroy the country if it wasn't corrected. While still a registered Democrat, Reagan realized he had become a Republican."6

His political views became so reactionary that they even started offending the conservative high command of General Electric—to the point where both GE and the BBD&O advertising agency began holding private meetings, considering whether to replace Reagan with a new, more moderate host.

Stanley Rubin, who was GE Theater's executive producer from 1959 to 1962, said, "There was a time when I heard from the executives from MCA-Revue that Ronnie was unhappy with the kind of liberal content. liberal point of view of the stories. To me, they were studies of the human condition. . . . Suddenly, he got the right to come to me with a couple of stories and to produce them. . . . I didn't like his selection at all. His stories were extremely political—right-wing political. They were exposés of communists in America."7

Rubin later added, "There came a time in the making of GE Theater in early 1961—while I was preparing scripts—a major executive at GE called me. He said they were coming out to the West Coast before the beginning of the new season. And he said, 'What do you think about a new host for the new season, and who would you suggest for the role?" I was kind of stunned. I said, 'Why don't you talk to Taft Schreiber?'

"Then they called back a couple of days later and asked 'What would you think of multiple hosts? Maybe Ronnie could be the host for the dramas, and maybe someone else could do the comedies, another could do the romances.' I told them it was possible but again suggested that they talk to Schreiber. They said they would be the following week. But, when they arrived, they said, 'Forget it.' I assumed that they had talked to Schreiber, who killed the idea of replacing Ronnie.

"I got one of the executives to the side and asked what had happened.

He said, 'You know that Ronnie, as the spokesman for GE, has been going around talking to all kinds of groups. And his speeches to these groups have been so ultraconservative that he has become an embarrassment to the GE executive suite.' "8

Finally, at the end of the 1961-62 season, General Electric Theater was canceled and the former president of the Screen Actors Guild was without steady work. Once again, MCA stepped in.\*

<sup>\*</sup>One long-time MCA loyalist whom neither Jules Stein nor Lew Wasserman could help was James Petrillo, who had given up his position as national president of the American Federation of Musicians in 1958 but kept control of his home local in Chicago. Running for reelection in Local 10 on December 5, 1962, Petrillo was narrowly defeated 1,690 to 1,595 by a rank-and-file reform candidate, dance-band leader Bernard "Barney" F. Richards, who sought an end to Petrillo's reign of terror within the union. By the end of his career, Petrillo rarely shook hands with people, fearing that another's germs would be passed along to him. At the conclusion of his farewell speech to his AFM brothers and sisters, he tearfully collapsed in the arms of his close friend, comedian George Jessel.

## CHAPTER TWENTY-SEVEN

SIDNEY KORSHAK had become, by 1962, a full-time resident of California with a home in the exclusive Bel Air section of Los Angeles—although he never officially practiced law in the state and never applied for the California bar. However, he continued to maintain his legal practice and businesses in Chicago. A confidential FBI report stated that he "is somewhat of a mystery man. He makes regular plane trips to Las Vegas and on occasion to Chicago as well as other places. He reportedly has an interest in the Riviera Hotel in Las Vegas."

Another FBI report stated that "negotiations were being carried on whereby the Chicago organization [Mafia] was to obtain a tighter grip on Las Vegas hotels and casinos and that allegedly negotiations were being made through Sidney Korshak," who was later described in that same report as "one of the most powerful individuals in the country."

One FBI source identified Korshak as "possibly the highest-paid lawyer in the world. The source stated that Korshak primarily represented a group in Las Vegas . . . the 'Chicago group,' who were in the opinion of this source the biggest single factor on the Las Vegas scene."

When in Las Vegas, he usually stayed in the Presidential Suite of the Riviera. He would occasionally give his quarters to Teamsters general president Jimmy Hoffa when he came into town, looking for investments for the Teamsters Central States Pension Fund. According to a Los Angeles Police intelligence report, on October 12, 1961, Korshak came into Las Vegas unexpectedly while Hoffa was in the Presidential Suite at the Riviera. When Korshak arrived at the hotel, Hoffa yielded to Korshak, moving out of the suite to a smaller room across the hall.

In late 1961, Korshak was asked to represent the Nevada Downtown Hotel Association in a strike involving the Las Vegas local of the Culinary Workers Union. He was also frequently spotted by law-enforcement officials meeting with Harvey Silbert, who was a Beverly Hills attorney close to Allen Dorfman, the fiduciary manager of the Teamsters pension fund.

Hoffa and the Teamsters, via the Central States Fund, had been extremely generous to Las Vegas, loaning hundreds of millions of dollars to the gaming establishments in Nevada, especially to midwestern gangster Morris Dalitz.

Moe Dalitz had been a key figure in Detroit's Purple Gang during the early 1930s, leaving for Ohio after a bloody war with a rival mob group. While in Michigan, Dalitz had become an important ally to young Jimmy Hoffa, introducing him to major Mafia figures throughout the country. Settling in Cleveland, Dalitz locked in with Ohio jukebox czar William Presser, who soon became head of the Ohio Teamsters—with the support of Dalitz, Hoffa, and their underworld friends. He also helped the Chicago Mafia bring George Browne and Willie Bioff to power in IATSE.

In 1949, Dalitz left Cleveland and moved to Las Vegas, where he and some associates bought the controlling interest in the Desert Inn. Dalitz selected Duke University graduate Allard Roen to manage the casino. Later, Dalitz and his business associates purchased the Stardust hotel/casino as well. Dalitz received \$24 million in loans from the Central States Pension Fund for his Las Vegas casinos and nearly \$100 million from the pension fund for the construction and subsequent renovation of his La Costa Country Club in Carlsbad, California—all personally approved by Hoffa and Allen Dorfman.

Korshak, according to a confidential FBI report, "was to act as a 'go-between' between John Factor ["Jake the Barber"] and the Desert Inn group made up of Morris Dalitz and Allard Roen in the sale of the Stardust property in Las Vegas, Nevada, owned by Factor. . . .

"Korshak was to keep the signed option and agreements in his personal possession concerning this transaction."

John Factor, an owner of the Stardust, was a wealthy international swindler, according to a Los Angeles Police report, who had served six

years in prison in a mail-fraud scheme involving \$1.2 million. The report also identified him as a "long-time friend of [the] Capone group from Chicago."

According to another FBI document, the government had learned that Korshak "had advised Hoffa not to make any loans from the Central States, Southeast, and Southwest Areas Pension Fund to the operators of Caesar's Palace in Las Vegas. That he, Hoffa, already had too many loans to Las Vegas gambling interests . . . that if the Teamsters membership ever found out about Hoffa's handling and misuse of the pension funds, he, Hoffa, would never get out of jail."3

The FBI was also investigating Teamsters pension fund loans to finance the Skyway Hotel at Miami's International Airport. Korshak was said to be the intermediary between the hotel group and Hoffa.

Back in Chicago, Korshak and his brother Marshall hosted a dinner in honor of the Cardinal Stritch Medical School of Loyola University. Meantime, Bernard "Pepi" Posner—who was identified in a confidential FBI report as the Korshaks' cousin but was no relation of Leonard Posner—was placed in charge of the underworld's bookmaking operations in the city's Hyde Park area. At the same time, Herman Posner, a rank-and-file dissident from Chicago's IATSE local and no relation to either Leonard or Pepi, was found knifed to death after preparing to turn state's evidence on extortion schemes and kickbacks involving local union leaders.

In New York, Korshak's name cropped up during an investigation of the New York State Liquor Authority and Ralph Berger, an organized crime associate who had reportedly gained "control over certain officials of the State Liquor Authority in New York, and of the Illinois State Liquor Control Board in Chicago. . . .

"Berger was a close associate of both Sidney and Marshall Korshak and resided in the same apartment building as Marshall Korshak and spent considerable time in the law offices of the Korshaks at 134 La Salle [in Chicago], and . . . Berger was a contact man between Korshak and . . . the chairman of the Illinois Liquor Control Board."

Federal investigators thereby assumed that Berger was fronting for the Korshaks. "[I]f Berger was able to exert any influence with certain members of the State Liquor Authority . . . he undoubtedly would do so as a representative of the Korshaks and not in his own right," the Justice Department document stated. "It was believed that any conniving Berger might do with the [New York] State Liquor Authority or with the Illinois State Liquor Control Board would be done on behalf of and under the instructions of the Korshak brothers."4

At the time of this New York investigation, Marshall Korshak was an Illinois state senator. He was also the president of Windy City Liquor Distributors, Inc., in Chicago. Judith Korshak, Marshall's wife, was the vice-president of the firm, and Mary Oppenheim was the secretary-treasurer. Oppenheim was also a secretary in the Korshaks' law firm.

In Los Angeles, Korshak was into everything from representing a drive-in theatre chain to putting together international deals for corporations. Court records also showed that Joe Glaser of the Associated Booking Company had legally given Korshak all "voting rights, dominion and control" over his interest in ABC. Although Glaser continued to head the agency, the legal maneuver would eventually give Korshak full authority. An FBI report alleged that he was part owner of the Bistro Restaurant, although his name appeared on none of the company's records. A fashionable spot with a French decor and ambience on North Canon Avenue in the heart of Beverly Hills, the Bistro had become one of the most popular restaurants among those on Hollywood's fast track. According to several sources, the Bistro has been the favorite restaurant of Ronald and Nancy Reagan. "They've been coming here for years," said a long-time employee of the restaurant, who added that the Reagans had been given their own table.

Korshak was also personally involved in the negotiations between the California Federation of Race Tracks and the Pari-Mutuel Clerks Union. According to Korshak, he became involved in the dispute when Mervyn Leroy—the one-time MGM director who had introduced Ronald Reagan to Nancy Davis—was president of the Hollywood Park Racing Association and asked Korshak for help to head off an employees' strike at Hollywood Park. Although there were twenty-eight other attorneys involved in the negotiations, Korshak received sole credit for ending the strike. Even though some thought the contract to be sweet—with the employees being forced to compromise their benefits—Korshak said that he "merely brought union and management into accord through some of his contacts."

Yet another FBI report indicated that the threatened strike at Santa Anita Racetrack in Arcadia, California, had been averted after Korshak intervened. As a reward, an FBI source alleged, "Korshak apparently obtained a substantial fee or interest in the racetrack as a result of his efforts. This source stated . . . that Korshak was also making himself available to the Los Angeles Dodgers baseball team."

Korshak's relationship with the Los Angeles Dodgers came through

his involvement in the ownership and operation of parking lots in the Los Angeles vicinity, in which he was a partner with Las Vegas casino owner Beldon Katleman and other businessmen in Affiliated Parking, Inc. During the building of Dodger Stadium, Korshak, according to an FBI report, "was represented to Mayor Samuel Yorty of Los Angeles as the attorney for Walter O'Malley, president of the Dodgers. At a meeting between Yorty, O'Malley, and other city department heads, O'Malley denied that he was represented by Korshak, and it developed that Korshak and others associated with him were interested in offering an attractive bid for the parking lot concession at the stadium."

The FBI report stated that O'Malley had originally contracted another parking lot company, "but, as opening day for the stadium approached . . . O'Malley . . . was going to have to pay fantastic wages to the attendants, who would be required to join a Teamsters Union local operating in the entertainment field. However, the group to which Korshak belonged could provide [sic] workers out of a different Teamsters local having a contract which could be extended to include the Dodger facility.

"The offer from the Korshak group was accepted by O'Malley."8

O'Malley later said, "We did what any ordinary prudent businessman would do." He added that Korshak "had the reputation as having the best experience in this area. He provided us a little insulation. ... As far as we're concerned, he does a good job. And unless he's been convicted of a crime, we're not going to do anything."9

Korshak also had an interest in another national parking concern, the Duncan Parking Meter Company, which "was controlled by the 'Outfit,' specifically Gus Alex . . . and Sidney Korshak." The FBI learned that the owner of the company, a Canadian millionaire, had been "muscled" out of the company by the Chicago mob-which then put in their own front men to run the business.10

In an interview with FBI agents, Korshak admitted that he was involved with Duncan-but as its "legal counsel." According to the FBI, the business had since been sold to legitimate interests.

In the January 27, 1963, issue of Parade Magazine, a reader asked: "I would like to know if a Chicago mouthpiece named Sidney Korshak represents both Jimmy Hoffa and the Chicago syndicate in Las Vegas. -F.L., Chicago, Illinois."

The reply was short. "Attorney Sidney Korshak reportedly represents the Cleveland interests in the Desert Inn and Stardust hotels of Las Vegas. He is reportedly the attorney for the Riviera Hotel in Las Vegas. Korshak is also a friend of such theatrical personalities as Dinah Shore and Debbie Reynolds. His exact relationship with Hoffa is not known."

Dinah Shore had appeared at the Desert Inn on February 3, 1961. The FBI speculated that Korshak might have "handled her contract on behalf of the Chicago group with whom Korshak was associated." Soon after, Shore and her husband, actor George Montgomery, threw a birthday party for Korshak at their home.

Debbie Reynolds appeared at the Riviera in January 1963, and Korshak was present for her opening performance. Korshak and his wife had purchased their Bel Air home in 1959 from Harry Karl, the president of Karl's Shoe Stores, Ltd., and Reynolds's second husband after her divorce from singer Eddie Fisher. Karl was a close friend and traveling companion of Korshak's.\*

On June 28, 1962, the dapper Karl, an expert gin rummy player, went to the Friars Club, where he was greeted by singer Tony Martin, who was to be Karl's second. Karl's opponent that day was real estate developer Maurice Friedman, a former part-owner of the New Frontier Hotel in Las Vegas.

Friedman had developed a scam for his game with Karl. A hole had been drilled in the ceiling, covered by an air vent, over Karl's shoulder. An accomplice of Friedman, George Emerson Seach, crouched flush against the peephole and, with the help of a zoom lens, would observe Karl's cards. Friedman was wired with a small receiver taped to his chest, through which he would receive a prearranged set of impulses in the pattern of a special code, indicating the status of Karl's hand. In one thirteen-hour session, Karl lost \$18,000 to Friedman. Friedman continued his scheme over the next few weeks. In all, Karl was cheated out of nearly \$80,000. Another club member, Ted Briskin, was taken for nearly \$200,000. Karl and Briskin were followed by Tony Martin, who lost \$10,000; Zeppo Marx, who was fleeced for \$6,000; and theatrical agent Kurt Frings, who dropped \$25,000. Actor Phil Silvers also lost but never revealed how much. Still others lost even more.

In the midst of Friedman's cheating operation, several others were brought in as part of the scam to play more sophisticated games,

<sup>\*</sup>Debbie Reynolds was Karl's fourth wife, after two marriages to Marie McDonald and another to Joan Cohn, whose 1959 wedding was held in Korshak's Chicago apartment. Korshak had also advised Karl on his 1957 divorce from McDonald, after which McDonald was kidnapped—while she was having an affair with Michael Wilding, Elizabeth Taylor's second husband. On the night of McDonald's abduction, both Karl and Korshak were observed at her home. When she was safely returned, she and Karl were remarried. No reasons for the kidnapping were ever given, and no arrests were ever made.

including Benjamin Teitelbaum, the owner of Hollywood Film Service. a film-studio equipment company, and a partner of Korshak in Affiliated Parking. Another co-conspirator who cut himself in for twenty percent of the action was mobster Johnny Roselli, who had figured out what Friedman and his associates were doing.

The Friars Club cheating scandal lasted for five years—until Beldon Katleman learned what was going on and, for unknown reasons, told FBI agent George Bland, who later managed to convince Seach to turn state's evidence. Federal agents raided the Friars Club and made arrests. The government's principal interest was Roselli, who was later indicted and convicted of racketeering and sentenced to yet another prison term.11

While Roselli was frequenting the Friars Club—and being seen on occasion with Korshak—he was also working in cooperation with the Central Intelligence Agency in the CIA-Mafia plots to assassinate Cuban premier Fidel Castro. Roselli had been brought into the plots by Robert Maheu, a top aide to billionaire Howard Hughes, in August 1960, while Dwight D. Eisenhower was president. Roselli brought Chicago mob boss Sam Giancana into the CIA web, and Giancana solicited the services of Florida gangland boss Santos Trafficante.

Maheu had met Roselli in 1958 when he was sent by Hughes to Los Angeles. In California, Maheu had a meeting with Greg Bautzer, a Beverly Hills attorney, who occasionally represented Hughes. Bautzer offered Maheu an all-expense-paid trip to Las Vegas to serve a subpoena on Beldon Katleman. Unable to get a reservation at Katleman's El Rancho Vegas, Maheu called a lawyer friend, Edward Bennett Williams, of Washington, D.C., who had also been a college buddy of Maheu's at Holy Cross. Williams then called Roselli, who then telephoned Maheu. Roselli confirmed reservations for Maheu and his wife at the El Rancho Vegas on the appointed weekend. The reservations had been personally approved by Katleman-whom Maheu was to subpoena for Bautzer.

Maheu recalled that after he arrived and was given Katleman's firstclass treatment, "I had a quick decision to make. Was I going to be a son of a bitch and serve the subpoena? Or was I going to go back and explain what happened? To me, it wasn't a big decision. There was no way in the world that I was going to compromise my friendship with Ed Williams and the man I had just met, Johnny Roselli, under those circumstances."

Maheu gallantly decided not to serve the subpoena and enjoyed his visit to the El Rancho. When he returned to Los Angeles, he explained to Bautzer what had happened in Las Vegas and returned the attorney's expense money.

"Bautzer laughed like hell," Maheu said, "and subsequently he told the story to Roselli. Then Roselli said he wanted to find out more about this guy Maheu. After that we became friends.... When he and I began discussing the Castro plots, I was straight up with him. I wasn't about to cross this guy or any of his friends."<sup>12</sup>

During a conversation with Los Angeles crime boss James Fratianno, Roselli warned, "Well, you watch that fucking Korshak. He's Gussie Alex's man. . . . One thing you've got to keep in mind with Korshak. He's made millions for Chicago and he's got plenty of clout in L.A. and Vegas. . . . Sid's really burrowed in. He's real big with the movie colony, lives in a mansion in Bel Air, knows most of the big stars. His wife plays tennis with Dinah Shore, and he's been shacking up with Stella Stevens for years. . . . He calls himself a labor-relations expert, but he's really a fixer. A union cooks up a strike and Sid arbitrates it. Instead of a payoff under the table, he gets a big legal fee, pays taxes on it, and cuts it up. All nice and clean. This guy ain't never going to the joint, believe me. . . . In other words, if you're going to fuck with this guy, you better watch your step."

Sidney Korshak was also a silent associate of the cool, gravel-voiced Bautzer in his Beverly Hills law firm, Wyman, Bautzer, Finell, Rothman & Kuchel. Married to actress Dana Wynter, Bautzer made his reputation as a Hollywood divorce attorney for such stars as Ingrid Bergman before shifting gears and concentrating on corporate law. He also represented Joseph Schenck of Twentieth Century-Fox, as well as the Flamingo hotel/casino in Las Vegas.

Eugene L. Wyman, the senior partner in the firm, had succeeded attorney Paul Ziffren as California's representative to the National Democratic Committee. Wyman was also elected as California's Democratic state chairman.

An FBI report stated that "Korshak is allegedly a close friend of both [California governor] Edmund G. (Pat) Brown and Gene Wyman. They are said to be frequent breakfast guests at his home."14

Consistent with that, another 1963 FBI document stated that an underworld informant close to Chicago racketeer Murray Humphreys and Sidney Korshak told federal investigators that Korshak had become "one of the biggest guys in the country today who has a pipeline right to the government in Washington." <sup>15</sup>

## CHAPTER TWENTY-EIGHT

In ITS first year under MCA's control, Universal Pictures—with its \$50 million expansion well under way—produced several critical and box-office successes under production chief Edward Muhl, including Alfred Hitchcock's *The Birds; Charade*, which starred Cary Grant and Audrey Hepburn; *A Gathering of Eagles*, featuring Rock Hudson; *The Thrill of It All*, with Doris Day and James Garner; and *The Ugly American*, starring Marlon Brando.

Although none of these films won any Academy Awards, the most highly publicized film of the year and most expensive production of all time—which won four Oscars—was Cleopatra. Despite the steamy off-camera romance between the movie's stars, Elizabeth Taylor and Richard Burton, and the international gossip this romance ignited, the \$44 million Cleopatra was a financial disaster, causing heads to roll at Twentieth Century—Fox, which was later forced to sell its backlot in order to pay the film's creditors. Spyros Skouras was forced out as the president of the studio, which was taken over by Darryl Zanuck from New York while his son, Richard, became its production chief on the West Coast.

That same year a fate similar to Skouras's befell MGM chief Joseph

Vogel, whose Waterloo was the remake of *Mutiny on the Bounty*. It cost over \$30 million and was also a box-office failure.

Paramount had also fallen on hard times, forcing Barney Balaban—who had been president of the studio since the days of the payoffs to Willie Bioff, George Browne, and IATSE—to be kicked upstairs as Paramount's chairman of the board.

But the tragedies within the top management of Hollywood in 1963 were nothing compared to the national tragedy that fall.

On November 22, 1963, President John F. Kennedy was shot and killed while riding in an open convertible in Dallas, Texas. His assassin, Lee Harvey Oswald, had close ties with the Carlos Marcello Mafia family in New Orleans, particularly with Charles Murret, a top man in Marcello's Louisiana gambling network. Oswald had also been seen by numerous witnesses meeting with Marcello's personal pilot just days before he murdered the president.

Within forty-eight hours after the shooting, Oswald, who panicked after the assassination and was captured by police, was killed by Dallas nightclub owner Jack Ruby, who had a long-standing relationship with numerous associates of the Chicago Mafia and had worked as an organizer at one time for Paul Dorfman, the stepfather of Jimmy Hoffa's associate Allen Dorfman, in the Chicago Wastehandlers Union. During the days and weeks before the Kennedy killing, Ruby was calling and being called by top aides to Marcello, Florida mobster Santos Trafficante, and Hoffa—all of whom were known to have discussed plans with their associates to murder either John or Robert Kennedy. A U.S. House select committee investigating the Kennedy assassination later concluded that "Carlos Marcello,\* Santos Trafficante, and Jimmy Hoffa† had the motive, means, and opportunity" to murder the president.

<sup>\*</sup>In September 1962, Carlos Marcello allegedly threatened to kill President Kennedy, according to Pulitzer Prize-winning reporter Ed Reid in his 1969 book, *The Grim Reapers*. Reid's source for the information was Ed Becker, a Los Angeles private investigator who had been present when Marcello made the threat.

While Reid was writing his book, there was pressure on him not to implicate Marcello in the assassination. According to the U.S. House Select Committee on Assassinations, "FBI files . . . contain repeated references to the Bureau's use of allegations about Becker received from Sidney Korshak, an alleged associate of various organized crime leaders. The files indicate a high level of awareness at the Bureau's headquarters that the Los Angeles FBI office was using the information received from Korshak in an effort to persuade Reid not to publish the Marcello allegations. There was, however, no reference in the files to Korshak's own possible background and activities, nor to his possible motives in supplying the information at that time." † Jimmy Hoffa was convicted of jury tampering and defrauding the Teamsters Central States Pension Fund in 1964; he was sentenced to thirteen years in prison. In 1971, he was replaced as general president of the Teamsters by Frank Fitzsimmons.

"The mob did it," said G. Robert Blakey, the committee's chief counsel. "It is a historical fact." The committee's final report put forth the theory that Kennedy was killed to end the U.S. Justice Department's relentless assault on the underworld. The official investigation by the Warren Commission that followed never addressed the underworld ties to Oswald and Ruby. Many of those on the panel had been directly involved with the CIA in the CIA-Mafia plots to murder Fidel Castro-which the Kennedy brothers had no knowledge of until May 1962, at which time they ordered them stopped.

Meantime. Lew Wasserman had tried to revive Reagan's failing movie career. His last starring role had been in 1957, when he appeared with his wife in Columbia's Hellcats of the Navy. In 1961, MCA managed to get him the token role of narrator in The Young Doctors, a hospital soap opera with a surprisingly good cast, including Fredric March, Ben Gazzara, Eddie Albert, and George Segal in his screen debut.

In 1964, Reagan made his last feature film appearance in Universal's The Killers, with Lee Marvin, John Cassavetes, and Angie Dickinson, which was adapted from an Ernest Hemingway short story. A remake of a 1946 film-starring Burt Lancaster and Ava Gardner-The Killers had originally been made for television but was considered too violent for home viewing. Consequently, it was dumped into second-rate theatres around the country, despite the fact that it was actually as good a picture as the original version. Reagan's last part was his first and only bad-guy role in his fifty-five films. He played an unrepentant mobster who refused to run away from two hit men.

Reagan was becoming increasingly involved in Republican politics, particularly in Barry Goldwater's campaign for president. As he saw a growing response to his brand of political conservatism, he became more politically motivated, and his political rhetoric began to gel. His years as General Electric's spokesman, delivering addresses across the country and molding his political philosophy, culminated on Tuesday night, October 27, 1964—a week before the general election. That night, Reagan gave what has become known as The Speech: "A Time for Choosing" during a half hour on network television. An emotionally charged defense of Goldwater's ultra-right-wing politics and American conservatism in general, The Speech helped raise \$8 million in small contributions for Goldwater and catapulted Reagan into the national political limelight.

"You and I have a rendezvous with destiny," Reagan said that night.

"We will preserve for our children this, the last best hope of man on earth, or we will sentence them to take the last step into a thousand years of darkness."

Reagan had also been buoyed by the stunning 1964 victory in California of actor and song-and-dance man George Murphy in his bid for the U.S. Senate. Murphy, a conservative Republican and a former president of the Screen Actors Guild, had defeated Pierre Salinger—the former press secretary to President Kennedy, who had been appointed by Governor Brown to fill the unfinished term of Senator Claire Engel—by over 200,000 votes.

Jules Stein and Taft Schreiber were also enthusiastic Goldwater supporters, but, from past experience, MCA had learned its lesson. The antitrust problems the corporation had had would be eliminated in the future by maintaining good relations with both political parties. A television executive said, "Ever since the Justice Department busted them up, they play both sides of the political fence so they have a friend whatever party is in office."

While Stein and Schreiber covered the GOP, Wasserman was busy making friends among the Democrats. He became a close friend of Lyndon Johnson, a relationship he has never discussed, and became a key fund-raiser for the Democratic Party.\*

Wasserman was still interested in remaining a behind-the-scenes powerbroker and continuing to build the MCA empire. As the daily television viewing habits of the American public reached an average of over five hours, the MCA brass began to restructure their production company. Revue Productions was renamed and became Universal-Television, and Revue's studios became Universal City Studios, Inc. In its first year, Universal unveiled *The Virginian*, the first ninety-minute Western drama. The success of *The Virginian* in the television ratings was great enough for MCA to order *Wagon Train* to be expanded to ninety minutes as well.

MCA-TV continued to be the name of MCA's telefilm syndication company, but its president and long-time MCA vice-president, Sonny Werblin, had gone into professional football, buying twenty-three percent of the New York Titans in March 1963 and changing its name to the New York Jets of the American Football League. Werblin was named as the Jets' president and chief executive officer, and gave the team his favorite colors, green and white, the colors of paper money. Werblin would be best remembered for signing Alabama quarterback

<sup>\*</sup>According to published reports, Wasserman had been offered and had rejected the post of Secretary of Commerce in the Johnson Administration.

sensation Joe Namath to a \$427,000 package with the Jets-which included \$150,000 of MCA stock.

At the end of the 1964-65 season, Werblin decided to spend his time concentrating on his sports investments and resigned as president of MCA-TV. Upon his departure from MCA, George Rosen, a reporter for Variety, wrote in January 1965: "Last week's resignation of Sonny Werblin from MCA (after thirty-five years with the entertainment complex), expected as it was, signaled the end of an era. For in those more than three decades. Werblin wielded more influence, made more money, made and broke more careers than perhaps any other show biz impresario in New York.

"If he was not broadcasting's greatest showman, he certainly qualified as its greatest promoter and salesman.

"No one had better contacts, knew more secrets, swapped more information, flew so many airline miles, ate more meals at '21,' made more deals, or sold so many hundreds of millions of dollars worth of programming."

In 1965, the U.S. Borax Company needed to find a new host for its television show, Death Valley Days, a Western anthology series, to replace Stanley Andrews, who had introduced each episode since the program started in 1952. Borax's advertising agency was McCann-Erickson, of which Reagan's brother, Neil Reagan, was a vice-president. "I wanted to sign him for a contract," Neil Reagan explained. "He didn't want any part of it. I rather suppose he didn't want to work."5

Nevertheless, Reagan was offered and accepted the job as the host for Death Valley Days, with the help of his brother and the considerable influence of Taft Schreiber. He received \$125,000 annually.

MCA fortunes were further enhanced with the creation of a series of "World Premieres" for NBC—which, in 1965, had moved network president Robert Kintner to chairman of the board. Out of this concept —which was nothing more than making movies exclusively for television—MCA was able to sell several long-running dramas, including The Rockford Files, Columbo, McCloud, and Emergency. Of the 116 "World Premiere" movies MCA produced, thirty-one were turned into regular television series. MCA also made a record \$60 million deal with NBC for the television broadcast of one hundred Universal pictures.

"One major executive in our industry told me at the time that I was an idiot to make the deal," Wasserman said. "He thought I'd sold the product for too low a price. We did spend a hell of a lot of our own money on it, but we wanted to be certain we'd have enough production to keep the facility fully occupied."6

More money was being made on other fronts. MCA's wholly owned Columbia Savings and Loan Association of Denver had become the largest state-chartered S & L in Colorado. Since MCA's takeover of Columbia in 1962, the S & L's assets had risen eighty-three percent and totaled \$115 million. In order to attract customers, MCA had authorized Columbia to begin a flashy public relations campaign, spending over a half million dollars on advertising and promotion. As a result, revenues in 1964 were up forty percent over the previous year. Jack Benny, a member of Columbia's board of directors, had also been sent by MCA to open a new branch office in Fort Collins. "The line of people waiting for Benny's autograph on a deposit book," one report stated, "stretched for a block."

After Barry Goldwater's presidential defeat, conservative financier Henry Salvatori, the founder of Western Geophysical Company, and two of his political associates—Los Angeles car dealer Holmes Tuttle and A. C. Rubel, the chairman of the board of Union Oil—began to view Ronald Reagan seriously as their hope for the future. Salvatori explained, "After that speech, we decided we better keep that fellow on TV. We realized that Reagan gave the Goldwater speech better than Goldwater. He had more self-control. He could say the same things but in a more gentle way."

In 1965, the three Los Angeles millionaires formed the Friends of Reagan committee, consisting of, among others, Taft Schreiber; Leonard Firestone, a top executive of the Firestone Tire and Rubber Company; drugstore magnate Justin Dart; and Reagan's personal attorney, William French Smith. Rubel, serving as the committee's spokesman, announced, "Ronald Reagan, out of a deep sense of duty and dedication, is willing to serve as Republican candidate for governor, providing a substantial cross section of our party will unite behind his candidacy. To this end, Mr. Reagan has agreed to exhaustively explore the depth of filing and the possible commitment to such an endeavor."

When Reagan was convinced by his political supporters to run for governor of California against incumbent Pat Brown, who was seeking his third term, the Friends of Reagan became the Reagan for Governor Committee. Schreiber was Reagan's chief fund-raiser and co-chaired his campaign, which was arranged and financed by Jules Stein and a group of conservative southern California businessmen.

Reagan even published his autobiography, Where's the Rest of Me?, a sanitized, revisionist look by Reagan at his Hollywood past and his

wars with communism during his years with the Screen Actors Guild. Published by Duell, Sloan and Pearce, a New York publishing house. the book was co-authored by Richard G. Hubler. The appendix of the book included statements by Reagan indicating his views on issues ranging from "Fiscal Irresponsibility" to "Youth Aid Plans," and "Appeasement or Courage" to "Karl Marx."

With his background in films, Reagan mastered the art of the television political campaign, capitalizing on his image as a totally honest man with an endearing "golly-gee" naivete about him. After easily brushing off former San Francisco mayor George Christopher in the Republican primary, Reagan and his backers set their sights for Governor Edmund G. (Pat) Brown.

Pat Brown faced major problems, not the least of which was his opponent in the Democratic primary, Los Angeles mayor Sam Yorty, who was a close friend of Henry Salvatori and supported Reagan after Brown defeated him. When Reagan charged that Brown had "looted and drained" California's economy, the voters listened—regardless of how baseless the charge was.

Running on a tough "law and order" platform, Reagan accused Brown and the Democrats of being "soft on crime." Reagan's emphasis was on street crime and violence. He made no known statements on California's organized crime problem. When Reagan spoke of "the mob," he was generally talking about "the mob of students" at the University of California at Berkeley.

Reagan whipped Brown with fifty-seven percent of the vote and left his job as the host of Death Valley Days to become California's chief of state; his running mate, Robert Finch, became lieutenant governor.\* Less than three months after becoming governor, Reagan, upon being asked during a press conference about his legislative program, said he did not know what it was. "I could take some coaching from the sidelines," Reagan said only half-jokingly, "if anyone can recall my legislative program."

Considering all the help Reagan received from Stein and Schreiber. the standing joke in Hollywood was that "MCA even had its own governor."† The Justice Department's 1962 antitrust settlement with

\*In California, each party's nominees for governor and lieutenant governor run as a ticket but are elected separately, making it possible for the governor to be a member of one party and the lieutenant governor to be a member of the other. Robert Finch had managed Richard Nixon's 1960 campaign for the presidency and George Murphy's 1964 campaign for the U.S. Senate. †Reagan's millionaire friends did own the governor's home. After Nancy Reagan refused to live in the official but run-down governor's mansion, California's First Couple rented a home in Sacramento for \$1,250 a month. In 1969, Reagan's wealthy backers bought the governor's residence for \$150,000 and leased it back to Reagan for the same price he'd been paying for rent.

MCA and the inconclusive audit of Reagan might have ended speculation about Reagan's relationship with MCA—if it hadn't been for the additional questions that had cropped up about Reagan's finances during his political career. Most of the relevant facts about these financial dealings surfaced only after the Kennedy Justice Department, the IRS, and the FBI had closed the books on the MCA investigation. In the years after the 1962 consent decree, Reagan made more than seventy-five percent of his personal fortune—which would later be estimated to be more than \$4 million. Most of this wealth was amassed through a series of extremely shrewd real estate transactions in California—with the help of his friends at MCA.

Aside from the Reagans' purchase of their principal residence on San Onofre Drive in Pacific Palisades, Reagan was involved in another lesser-known deal—secretly orchestrated by Jules Stein and Taft Schreiber—which made him a millionaire.

As noted earlier, Ronald Reagan had purchased 290 acres of property in Malibu Canyon in 1951. Reagan paid \$85,000 for the property, or \$293 per acre. Ronald and Nancy Reagan never lived at this site, using it only as a weekend hideaway and for such activities as horse riding, barbecues, and cattle raising. The Reagans made no substantial improvements to this property, which contained only a small, fairly run-down house.

A little over a month after Reagan's election as governor, he sold 236 of his 290 acres to the Twentieth Century-Fox Film Corporation. The studio then owned 2,500 acres of adjoining land, which it sometimes used as a background site to film some of its movies. The controlling interest of Twentieth Century-Fox was still held by Darryl Zanuck and his family, who had supported Reagan in his race for governor.

The arrangement between Reagan and Twentieth Century-Fox was handled by Stein and Schreiber, with the legal work handled by Reagan's personal attorney, William French Smith, a Los Angeles labor lawyer working for management since 1942 and senior partner in the huge Los Angeles firm of Gibson, Dunn, and Crutcher.\* "I've spent thirty years dealing with the Teamsters Union and the construction workers' union and a few others," Smith said.9

The Reagan-Fox transaction occurred on December 13, 1966. Twentieth Century-Fox—via its real estate company, Fox Realty—pur-

<sup>\*</sup>Smith was a close personal friend of Beverly Hills attorney and former Democratic Party boss Paul Ziffren, who had been linked to major organized crime figures during the late 1950s; Smith was also at least acquainted with Sidney Korshak, according to several sources. Attempts to interview Smith for this book were unsuccessful.

chased the 236 acres for \$1,930,000, or \$8,178 per acre. Reagan made more than a 3,000 percent profit on his purchase of fifteen years earlier.

According to a rider to the deed, signed the next day, Fox also received an option to buy the remaining fifty-four acres of Reagan's ranch at some later date—at the same price of \$8,178 an acre.

It was unclear why Fox would have wanted any of the land at that price. According to published reports, Fox's own appraisers had judged the larger portion of land to have a market value of only \$4,000 per acre. County appraisers estimated that the property was worth even less. The fifty-four optioned acres, all on very steep terrain, were actually worth only about \$550 an acre. To explain the deal, the movie company announced that it planned to move its headquarters and studios to the property. But no such construction was ever undertaken.

One month later, on January 31, 1967, the Assignment of Deed of Trust for Reagan's property was filed with the Los Angeles County Recorder's Office. The paperwork showed that two of the trustees of Reagan's property sale to Fox were William French Smith and Jules Stein. Three days after the land sale, on December 19, 1966, the Reagans had signed over their power of attorney to Smith.

Reagan later told a reporter, "I could not have run for office unless I sold the ranch."10

Reagan added to his story later on, saying that he could not afford the property taxes for the ranch on his governor's salary of \$44,000 a year. Nancy Reagan also said, "We had to sell our ranch at Lake Malibu when Ronnie became governor . . . [because] Ronnie had taken a large cut in income when he left television to become governor. We simply could not afford the luxury of a ranch."11

## CHAPTER TWENTY-NINE

SINCE THE rise and fall of Bugsy Siegel, Nevada had become a haven for major organized crime figures throughout the United States. When the gaming industry—which already had a history of corruption—became legal in the postwar era, "the people who were available to run it when the decriminalization process began were the same people who were running it under the old illicit period," explained attorney G. Robert Blakey, who served in the Justice Department under Attorney General Robert Kennedy. "The public demanded regulation upon legalization—that is, the screening of ownerships, the licensing of casinos, and the subsequent oversight over these operations. The public pressure placed the power to regulate the gaming industry in the hands of the politicians. And it followed naturally that the politicians reached out to corrupt the industry."

During the early 1960s, Nevada caught the attention of the Kennedy Justice Department, which had launched a major campaign to prosecute organized crime figures. For fifteen months, secret FBI wiretaps placed on the business telephones of five major casinos yielded an astonishing history of syndicate involvement in Las Vegas, including massive skimming operations that were being funneled into other

Mafia-backed activities, such as narcotics and payoffs to politicians.

While the intelligence collected from this FBI surveillance was unprecedented, the operation presented a very touchy problem, since all of the taps had been installed illegally. None of the data could be used in court. As a result of this nondisclosure bind, numerous public officials in Nevada—led by Democratic Nevada governor Grant Sawyer -were able to charge convincingly that the federal government had launched into nothing more than a campaign of harassment against the casino operators, whom Sawyer and his followers viewed as legitimate businessmen. "Give us your evidence," Sawyer insisted, "or call off vour dogs!"

Without hearing any rebuttal from the Justice Department, Governor Sawyer continued to speak out against the FBI. His aim, naturally, was to protect his state's gaming industry, which in 1965 grossed \$330 million, employed 35,000 people, and contributed thirty percent of all tax revenues to the state.

Sawyer's voice fell silent when crime reporter Sandy Smith of The Chicago Sun-Times—armed with leaked Justice Department documents—published evidence of the mob's Las Vegas skimming operations. Smith's exposé made a mockery of the state's gaming licensing requirements and enforcement practices.

In 1966, this situation, in addition to a depressed state economy, set the stage for the emergence of Governor Sawyer's 44-year-old opponent. Paul Laxalt.

Laxalt was born in 1922 in Reno, the oldest of the six children of Dominique and Theresa Laxalt. His father was a sheep herder who immigrated to Reno from the misty valleys of the French Pyrenees and later moved his family to Carson City, Nevada's capital but still a small, Ponderosa-like town. Working in the family's restaurant as a young boy, Paul Laxalt was able to obtain his political baptism by serving such people as long-time Nevada senator Patrick McCarran, the Democrat who ran Nevada's bipartisan political machine.

A star athlete in high school, Laxalt later attended Santa Clara University, a Jesuit school in California, receiving his undergraduate degree in 1943. At that point, his mother had wanted him to go to a seminary to become a Roman Catholic priest, but Laxalt had more ambitious plans for his future.

After a tour of duty in the U.S. Army, serving in the South Pacific, he went to law school at the University of Denver, graduating at the top of his class in 1949. Meanwhile, he married Jackie Ross, the daughter of John Tom Ross, a powerhouse in Nevada's Republican Party, who later became a respected federal judge. Fresh out of law school, Laxalt joined his father-in-law's law firm.

Ross was Laxalt's early mentor, introducing the young attorney to the intricacies of Nevada state politics. Wasting little time, Laxalt was elected district attorney of Ormsby County within a year of his graduation, but he left office after one term in 1954 to return to private practice. In 1962, he was elected lieutenant governor of the state, running on a ticket under the gubernatorial candidate, Rex Bell, a former cowboy movie star who had found Laxalt after approaching Judge Ross for advice on a possible running mate. During the campaign, however, Bell died. In the wake of his death, Laxalt, because of his inexperience, decided not to step up and seek the office of governor. He remained as the candidate for lieutenant governor and won by a large margin; the GOP's last-minute replacement for governor lost to Democratic incumbent Grant Sawyer.

The following year, while simultaneously running Barry Goldwater's presidential campaign in Nevada, Laxalt received the Republican nomination for the U.S. Senate. That November, he lost by just forty-eight votes to the incumbent Democrat, Howard Cannon, who was seeking his second term.

In 1966, while the embattled Sawyer, who was running for his third term, was waging his civil war against the Justice Department, Laxalt decided to challenge him for governor.

To launch a serious effort, Laxalt needed money for his campaign. He received help from Ruby Kolod, part-owner of the Desert Inn with Moe Dalitz and a member of the Cleveland Mayfield Road Gang, who became one of Laxalt's major fund-raisers.

Kolod was not the typical campaign worker. He had been convicted just a year earlier of threatening to kill a Denver attorney over a disputed investment deal. His situation was further clouded because the murder threat prompted the Nevada Gaming Control Board to file a complaint against him, challenging his gaming license. That complaint was pending at the time Laxalt was using him to raise funds for his campaign.

"My administration had taken away Kolod's gaming license," Sawyer said, "because he had been convicted of a crime. He took the position that we should wait until after his appeal had been settled. We said no. So he, therefore, became Laxalt's prime fund-raiser among the casinos. And he did a hell of a job."<sup>2</sup>

Laxalt later conceded that Kolod "did help us, tremendously."

During the campaign, Sawyer's criticism of the FBI became an issue —with Laxalt supporting the Bureau.

"Laxalt indicated that he would want to make peace with J. Edgar Hoover," Sawyer explained. "He went to see him just before the election. That was a much-heralded meeting. Hoover wrote a letter condemning me, and it was printed on the front page of the Las Vegas Sun —just before the election. In those days, no one went against Hoover and came out alive."4

Later, Laxalt suggested that his position on the FBI was based more on politics than on conviction. "We had a rather peculiar situation here in the closing months of a gubernatorial campaign, attempting to assess whether the FBI was the good guys or the bad guys. I adopted a white-hat posture at the time, and I wonder if it wasn't a questionable political posture."5

Paul Laxalt's first and most important job upon becoming governor was to turn around the state's depressed economy. To do so, he had to change Nevada's gangster image and repair the damage done to the state's relationship with the federal government. At the same time, he had to be sure to balance his actions carefully by appearing the gambling community.

Laxalt took office in January 1967—the same month as Reagan took over in California. The two governors both became active in the Western Governors' Conference. From this association, a close personal and professional friendship developed.

In February, billionaire Howard Hughes came to Nevada with \$500 million in cash, hoping to buy up Las Vegas with the profits he had made from the sale of Trans-World Airlines.

Robert Maheu-Hughes's right-hand man and the 1960 liaison between the CIA and the Mafia in the Castro murder plots—said, "Considering the poor condition of the economy, the investigations of organized crime's involvement in the state's chief industry, and the consequent public relations problems they caused, Laxalt viewed Hughes's entry onto the Las Vegas scene as a blessing. Laxalt was convinced that Hughes and his 'nonmob' money—which could buy out 'suspected' casinos—would ultimately save Nevada's declining gaming industry."6

Laxalt has admitted to having given Hughes preferential treatment. "Let's face it," Laxalt told reporters, "Nevada has an image problem -the typical feeling is that sin is rampant here. Anything this man [Hughes] does, from the gaming industry all the way down the line, will be good for Nevada."

Regardless of Hughes's purported "Mr. Clean" image then, it is clear that he was encouraged and helped by members of organized crime when he came to Las Vegas—particularly by mobster Johnny Roselli, who had been Maheu's contact man in the CIA-Mafia plots against Castro. Roselli and his cohorts assumed that Hughes's presence would automatically take the heat off those casinos still operating illegally.

With Roselli's help—as well as that of Teamsters Union president Jimmy Hoffa, who was en route to Lewisburg Penitentiary—the Hughes Tool Company's first purchase was the Desert Inn, which it bought for \$13.6 million from the Dalitz-Kolod syndicate in March 1967. Roselli and Hoffa's attorney, Edward Morgan of Washington, D.C., received a \$150,000 finder's fee for greasing the sale by serving as liaison between Hughes and Dalitz.

Laxalt wanted to help the reclusive Hughes get his license without scrutiny from the Nevada Gaming Commission. Three days before the commission hearing, Hughes, in a brilliant public relations ploy to obtain the license, offered to donate over \$200,000 a year for twenty years to a proposed state medical school.

Laxalt made the public announcement of the grant on Hughes's behalf, praising the billionaire for his unselfish generosity. The gaming commission apparently got the message. During the hearing, Hughes was not required to appear before the panel. In fact, he was granted the Desert Inn gaming license—without ever being subjected to a public investigation of his finances. With Laxalt's help, Hughes's privacy was strictly maintained in his subsequent purchases of the Sands, the Castaways, the Frontier, the Silver Slipper, and the Landmark in Las Vegas and Harold's Club in Reno. But he eventually needed help to run them.

"At first, Hughes brought in his own business people to run the casinos," said Tom Mechling, president of the National Gambling Information Center. "But they lost him money. He learned that you have to protect yourself against the people outside and inside the casinos who are trying to cheat you. So Hughes brought Dalitz back into his operations, naming him as a 'senior consultant.' Dalitz is the elder statesman for Las Vegas, and he speaks for the whole gambling community. He knows how to make a casino work."

Sidney Korshak also came into the picture in 1967 as he increased his influence over the Associated Booking Company, by then the third largest talent agency in the country.\* He took over the booking of acts

<sup>\*</sup>Upon Joseph Glaser's death on June 4, 1969, Korshak gained full authority over the Associated Booking Company.

into Hughes's hotels. Among the big stars he brought in were Ann-Margret, Dean Martin, Tony Martin, and Barbra Streisand.

After the Justice Department's Antitrust Division threatened to take action against Hughes if he bought the Dalitz-owned Stardust hotel/ casino, Laxalt protested directly to Attorney General Ramsey Clark. In a letter to Clark, Laxalt charged that, by blocking the \$30.5 million Stardust transaction, the Antitrust Division had "jeopardized the employment of 2,000 people in the Stardust enterprise. . . . The end and only result of an antitrust action of this type that I can see is drastic and permanent damage to our economy."8

Laxalt also reminded the attorney general that the federal government owned over eighty-seven percent of the state's land, or 60,000,000 acres, implying that Nevada could cause the U.S. Department of the Interior and other government agencies jurisdictional problems. "If suit is instituted," Laxalt warned, "and this most assuredly is no form of threat but simply is offered as a factor in your legal evaluation of whether or not to proceed, we would be faced with no alternative other than to intervene and oppose the action with all the resources of the state."

Before the hot-tempered governor had a chance to declare war on the federal government. Hughes backed off from his attempts to purchase the Stardust. Hughes next attempted to acquire the Dunes hotel/ casino, which was also blocked by the Antitrust Division. Consequently, Laxalt worked to change state law so that public corporations could purchase gambling casinos and be licensed by the gaming commission. Laxalt claimed that this "reform" would prevent hidden interests by mobsters in Nevada gaming establishments since corporations are required by the Securities and Exchange Commission to disclose their chief operating officers and major stockholders. However, organized crime figures continued to hold hidden interests in Nevada's casinos.

Perhaps the most interesting example of this was the Parvin-Dohrmann Company, primarily a hotel and restaurant equipment and supply company that was principally owned by Albert Parvin. In 1955, Parvin had purchased the controlling interest in the Flamingo and later in the Fremont and Aladdin hotels. Among Parvin's directors was his vice-president and treasurer, Harvey Silbert, who was Sidney Korshak's friend and business associate from the Riviera. In 1966, Parvin-Dohrmann became embroiled in a nationally publicized scandal when it was discovered that Supreme Court Associate Justice William O. Douglas had been on the payroll of the Albert Parvin Foundation. Douglas, president of the tax-exempt foundation—which was primarily financed by profits from the 1960 sale of the Flamingo—had received \$12,000 a year since 1962. At the time of the 1960 Flamingo purchase, Parvin paid mobster Meyer Lansky a \$200,000 finder's fee for finding the buyer.

Despite these revelations about his business deals and associates, Parvin still managed to obtain approval from the Nevada Gaming Commission in 1968 to purchase the Stardust from Moe Dalitz—after Howard Hughes withdrew his bid. Dalitz was hoping to finally leave Las Vegas and retire to his La Costa Country Club. Sidney Korshak received a \$500,000 finder's fee from the Dalitz group for arranging the Stardust sale.\*

In 1969, weary of all the problems in Las Vegas, Albert Parvin decided he wanted out. Waiting to buy the corporation was a Korshak business associate, Delbert Coleman, a Harvard man and an attorney. Earlier, Coleman had purchased and sold a Chicago jukebox manufacturer, the J. P. Seeburg Corporation, for which Korshak had served as labor consultant. For \$10.5 million, Coleman became the largest stockholder in Parvin-Dohrmann—and consequently, the Stardust, the Fremont, and the Aladdin.

At the time of Coleman's 300,000-share purchase, Parvin-Dohrmann was valued at thirty-five dollars a share on the American Stock Exchange. Within months, a bizarre and complex series of financial manipulations sent the stock skyrocketing to \$141. When the corporation peaked, Coleman and his stockholders, through Korshak, tried to sell it to the National General Corporation, which owned a large theatre chain. However, the negotiations between National General and Korshak broke down. Harold Butler, the president of Denny's Restaurants, then stepped forward and bought out Coleman, Korshak, and three other investors at \$150 a share when its market value had already started to drop below one hundred dollars a share. Then, suddenly, Parvin-Dohrmann's stock collapsed to a low of \$12.50, forcing the Securities and Exchange Commission to suspend trading.

<sup>\*</sup>Korshak had continued to remain busy. In 1966, while serving as the chief negotiator for Schenley Industries, the liquor company, Korshak settled a labor dispute between Schenley's president, Lewis Rosenstiel, and Cesar Chavez, the director of the United Farm Workers Union. Advised by Korshak, Rosenstiel broke with other grape growers, recognized the UFW over the Teamsters Union as the bargaining agent for California's migrant farmers and signed a one-year contract.

Rosenstiel's impetus to settle was Korshak's power within the Culinary Workers Union, which threatened a boycott of Schenley's products in bars and restaurants.

Coleman went to a close friend of Korshak, Washington lobbyist Nathan Voloshen, who was asked to help lift the suspension and to avoid possible prosecution. Voloshen went to Martin Sweig, the top aide to Democratic Massachusetts congressman John McCormack, the speaker of the House, and asked for Sweig's assistance to set up a meeting with the head of the SEC. After the meeting—in which the SEC refused to allow Parvin-Dohrmann to begin trading again—it was discovered that Voloshen had received \$50,000 from Coleman, which was prohibited under SEC rules. After a lengthy investigation, Voloshen pleaded guilty for influence peddling and was sent to jail. Speaker McCormack, who was reportedly seen accepting a \$15,000 payment from Voloshen but was not indicted, did not seek another term.

The SEC charged that Parvin-Dohrmann, under Coleman, had filed false reports with the SEC during its purchase of the corporation, concealed the true identity of certain participants in the control group, allowed this group to buy into the corporation at thirty-five dollars a share when it was trading for seventy-five dollars a share, and then fraudulently manipulated the worth of the company's stock. Among those named in the complaint were Sidney Korshak; his brother Marshall Korshak, who was then Chicago city treasurer; Las Vegas gambling boss Edward Torres; and actress Jill St. John,\* who owned 1,000 shares and made \$150,000 on the deal. Sid Korshak, who had had 12,500 shares of stock, made nearly \$2 million.

Also charged by the SEC in the Parvin-Dohrmann scheme was Denny's Restaurants, a California-based restaurant franchise. At the time of the Parvin-Dohrmann purchase by Denny's, those holding Parvin-Dohrmann stock were promised four shares of Denny's for one share of Parvin-Dohrmann.

During Korshak's deposition to the SEC, he was asked what other corporations had come to him asking for his help in buying Las Vegas properties. Korshak replied, "There were half a dozen people talking to me at different times... about possible acquisitions in Nevada. They would have been companies I was close to, probably represented. There was a period immediately following Mr. Howard Hughes's acquisitions, where everybody became interested in making an acquisition in Nevada."

<sup>\*</sup>Korshak had met St. John with Frank Sinatra during the early 1960s. Both men became interested in her and advised her to divorce her second husband, Woolworth heir Lance Reventlow, and pursue a movie career. Grateful for their advice, St. John, who dumped Reventlow and became a star, remarked, "Fortunately, all Frank's friends happen to be very influential."

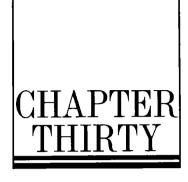
"Do you remember the name or names of any of those corporations in 1968, Mr. Korshak?" asked the SEC attorney.

"It is possible that the Gulf & Western people that I do general labor work for could have talked to me about the possibility of an acquisition in Vegas."

"Are there any other—excuse me—"

"I do work for the Hilton Corporation. It is possible that they talked to me. At this particular time, many hotels were interested in expanding their holdings into Nevada. And it is possible that the Hilton people talked to me about it. I believe it is possible that the Hyatt Hotel Corporation talked to me also about the possibility of their making an acquisition in Nevada. Maybe others, as I have stated; at this particular moment, I can't think of any." <sup>10</sup>

In the end, a settlement was reached with the SEC, in which the defendants had to neither admit nor deny the charges against them—although Coleman was forced to resign as the head of Parvin-Dohrmann. Parvin returned and again took control of his corporation but changed its name to Recrion, giving Korshak another \$500,000 finder's fee for making the arrangements.



IN THE late 1960s, corporations were beginning to diversify, merge, or sell out—so much so that the word "conglomerate" and its application to the business world became part of the English language. Numerous corporations successfully added major entertainment companies to their empires.

Seven Arts bought out Warner Brothers, making Jack Warner board chairman. The National General Corporation had wanted to buy out Warner Brothers-Seven Arts but was thwarted by the Antitrust Division. Eventually, the film interest was sold to a funeral, parking lot, and cleaning services company, the Kinney Corporation, headed by Steven J. Ross, for \$400 million. Kinney later changed its name to Warner Communications. Ted Ashley, who was bought out of Ashley-Famous Artists talent agency by Kinney, was picked to head Warner Brothers.\* Screen Gems merged with Columbia Pictures Industries, Inc., which

<sup>\*</sup>As it had with MCA, the Antitrust Division forced Kinney to divest itself of Ashley-Famous Artists, which was then purchased by Marvin Josephson Associates, another talent agency. Ashley-Famous Artists was renamed International-Famous Artists, which later bought out the Chase-Park-Citron agency. Josephson had once been with the General Amusement Company—which became Creative Management Associates (CMA), headed by Freddie Fields. Eventually, International-Famous Artists merged with CMA to form International Creative Management (ICM), which rivaled William Morris as the most influential talent agency in the United States.

was being run by president Leo Jaffe, Abe and Stanley Schneider, and Mike Frankovich, who took over in the wake of Harry Cohn's death. Korshak's client Gulf & Western took over Paramount Pictures. Transamerica, an insurance and financing company, accumulated ninety percent of United Artists—which bought Warner Brothers' pre-1948 film library, giving it the largest such library in the business. Avco, which specialized in military and aerospace equipment, merged with Embassy Pictures, creating Avco-Embassy Pictures.

In the midst of hard times at MGM and the death of former board chairman Joe Vogel, the studio sold its controlling interest to Kirk Kerkorian. A tall, dark, and handsome man, Kerkorian was described by rivals as "a poor man's Howard Hughes." He was an eighth-grade dropout who, after working as a used-car salesman, bought a single World War II surplus airplane, beginning an airline company, which became Trans International Airlines, making runs from Los Angeles to Las Vegas after Bugsy Siegel built the Flamingo. In 1968, Kerkorian sold his firm to Transamerica—which had already bought United Artists—for stock eventually worth \$104 million. With his profit, he managed to borrow another \$73 million in unsecured loans and acquired a thirty-percent interest in Western Airlines and the Bonanza casino in downtown Las Vegas. He then bought the Flamingo in 1969 and merged it with his newly constructed International Hotel.

With his hotel and casino profits, Kerkorian bought MGM, naming James T. Aubrey, the former president of CBS, as MGM's president.\*

Kerkorian was a long-time friend of Charles "The Blade" Tourine, a top New York mobster and an associate of Meyer Lansky. Federal investigators had wiretapped a telephone call Tourine had made to Kerkorian in Beverly Hills on October 5, 1961. During the conversation, Kerkorian said that he was going to give Tourine \$21,300, and that actor George Raft would be his bagman.

In 1966, Lew Wasserman was elected chairman of the Association of Motion Picture and Television Producers. The AMPTP was principally responsible for negotiating the studios' contracts with Hollywood's labor unions. The AMPTP's lobbying arm in Washington was the Motion Picture Association of America, which was headed in 1966 by Jack Valenti, a former aide to President Lyndon Johnson who was hand-picked by Wasserman. Louis Nizer, the prominent trial lawyer, became the MPAA's general counsel. By nearly everyone's standards,

<sup>\*</sup>Kerkorian would eventually sell his casino and hotel interests in Las Vegas to Hilton Hotels, which was then represented by Korshak.

there was now no doubt that Wasserman had become the most powerful legitimate force in Hollywood.

To help the film industry, Governor Reagan pushed legislation through the California State Assembly, giving all Hollywood studios, including MCA-Universal and Twentieth Century-Fox, huge breaks on their film libraries. The tax savings at each studio was estimated to be worth a minimum of \$3 million. Former California governor Pat Brown had previously vetoed the same bill.

"I've always been puzzled by it," Brown told reporter Jeff Stein. "All the assessors were opposed to it. It should never have been signed." Significantly, no other industry in California received such relief for its inventory.

MCA also further diversified, buying Spencer Gifts, a mail-order house based in Atlantic City, New Jersey—specializing in gifts, housewares, stationery, home decor items, notions, and novelties which would later become a fixture in shopping malls around the country and a multi-million-dollar enterprise.

In 1966, MCA had grossed nearly \$225 million from its movies, television productions, records, real estate investments, and other holdings. But, on account of a number of box-office disappointments—like Thoroughly Modern Millie in 1967, and Counterpoint, The Loves of Isadora, and Secret Ceremony in 1968—MCA found itself facing an \$80 million debt, the biggest in the corporation's history.

"So Stein, Wasserman, and Schreiber made a number of moves to deal with the situation," one report stated. "Wasserman set up a threeperson executive vice-presidents' group that included studio-tour head Al Dorskind, TV syndication operative Berle Adams, and former Lehman Brothers executive Dan Ritchie, who was put in charge of financial affairs."2

Then the Pittsburgh-based Westinghouse Electric Corporation which in 1967 had \$3 billion in sales of everything from light bulbs to nuclear reactors—got into the act. Already the owner of five television and seven radio stations, Westinghouse wanted to add MCA to its huge complex. The \$365 million deal offered by Westinghouse stood to make Jules Stein a whopping \$102 million and make him Westinghouse's largest stockholder. Wasserman stood to make a cool \$50 million. Westinghouse also promised to continue the expansion of Universal City.

"Stein and Wasserman were in favor of the whole thing and wanted it to happen," said a former top MCA official. "Stein wanted out of the business to pursue his interests in eye research. He had just pulled all kinds of strings and raised and personally contributed a lot of money to get the Jules Stein Eye Institute built right on UCLA's campus. For Stein, that was everything. That was his red-marble monument. Wasserman wanted to remain autonomous in movie and television production—which the Westinghouse deal also guaranteed. For Lew, that's what made the whole thing so sweet. Stein wanted the immortality; Wasserman wanted the power."

Once again, the Justice Department's Antitrust Division sprang into action, threatening an investigation of the Westinghouse-MCA merger on the basis of Westinghouse's extensive investments in television and radio. Consequently, in April 1969, it was Stein and Wasserman who called the deal off.

A month before MCA terminated the arrangement, Stein, with the support of Taft Schreiber, had made plans to fire Wasserman as the president of MCA. The firing was to have been based upon Universal's dismal box-office receipts and the handling of the Westinghouse merger. "All Stein had to do was vote his shares at a meeting of the MCA board on March 31, 1969," said Hollywood columnist James Bacon, who was the first reporter to break the story. "But I got wind of what he was going to do and wrote a column on the Friday before the board meeting. . . . In my column, I wrote that it was Wasserman's guiding genius of MCA in its talent agency days that boosted Stein from a mere band-booker to a multi-millionaire tycoon of the entertainment industry. . . .

"The board meeting was held on Monday as scheduled and a few executives who had hoped to get Wasserman's job were disappointed: Jules, instead of firing Wasserman, handed him a new long-term contract."

Reporter Bob Gottlieb interviewed another top MCA official, who quoted Wasserman before the board meeting as saying, "'Either I'm in control or not.' And then, puff, it was gone—the idea that they could really move against him. Lew was in charge, because no matter what Stein and Schreiber thought about their stock or whatever, Lew was the company. It was like waking up from a dream and then saying, 'Now why did I ever feel that way?' "

According to published reports, in the wake of the attempted coup, MCA executive Berle Adams, who was loyal to Stein and Schreiber and Wasserman's heir-apparent, was forced out of the company. After a brief housecleaning, Wasserman firmly took charge and began to deal with the corporate debt, beginning with a reshuffling of priorities at

Universal. Ned Tanen, a Wasserman protégé who had started out in MCA's mailroom in 1954 and moved up through MCA's record company, was moved over to Universal, where he and thirty-two-year-old Daniel Selznick, the son of the legendary producer David O. Selznick. were placed in key executive positions.

As MCA began to get back on track, another merger negotiation emerged, this time with the \$2 billion Firestone Tire and Rubber Company of Akron, Ohio, which owned no television or radio stations. The initial driving forces behind Firestone's attempted takeover of MCA were Schreiber and Leonard Firestone, both of whom had been active on Reagan's 1966 campaign committee.

"When MCA's merger with Westinghouse fell through," Firestone said, "I called Taft Schreiber, a good friend for many years, to say I was sorry. It occurred to me to ask, 'Why don't we talk?' I sent their annual statement to my brother [corporate board chairman Raymond Firestonel with a note saying we ought to take a look at this, and he showed it to the people there."4

Like Westinghouse, Firestone—which had offered \$320 million for MCA—promised the entertainment complex complete autonomy over its movie and television productions and pledged to expand Universal City. Unlike Westinghouse, there was little chance of an antitrust suit being filed to block the merger. But in the end, it was Lew Wasserman who was unenthusiastic at the prospect of his company being taken over by a tire manufacturer. Firmly in command at MCA, Wasserman said no, and the Firestone deal simply collapsed.

In 1968, Ronald Reagan attempted but failed to win the Republican nomination for president of the United States, losing on the first ballot at the GOP convention to Richard Nixon. That same year, the California governor tried, without success, to sell the remaining fifty-four acres of his Malibu Canyon ranch, since Twentieth Century-Fox had decided not to exercise its option to purchase the property. Reagan's asking price for the property was set at \$165,000—or five times the assessed value.

Acting on his behalf, Reagan's trustees—including William French Smith, Jules Stein, and real estate tycoon William A. Wilson—used the parcel of land as a down payment for a 778-acre ranch in Riverside County in a remote area between Los Angeles and San Diego. Reagan bought this second ranch from a partnership that included the Kaiser Aluminum Corporation. The total purchase price was \$346,950. The Reagan trust paid \$181,950 in cash and swapped the fifty-four acres for

the \$165,000 balance. Smith and Schreiber also purchased large tracts of land nearby as well.

However, there was a proviso on Reagan's sale agreement with Kaiser. If the Kaiser partnership could not sell the fifty-four-acre down payment within one year, then Reagan would be required to buy back the land at the same price, \$165,000.

In July 1969, a year after the sale, Kaiser could still not sell the fifty-four acres, so Reagan had to take it back. Needing \$165,000, Reagan was lucky enough to have generous friends and was able to rid himself of the property without putting up any of his own money. A mysterious company—the "Fifty-seventh Madison Corporation," which was chartered in Deleware—bailed Reagan out by slapping down the full \$165,000 and buying the fifty-four acres.\*

The Fifty-seventh Madison Corporation was created and owned by Jules Stein. Reagan's fifty-four acres were the company's only real estate holding outside of New York. The corporation's property manager, Ross Simpson, told Washington Post reporter Charles Babcock that Stein had "made the purchase because the land was close to property Fox had developed into housing and made a lot of money [on]. He said he was going to invest in that and cut up the land to make houses." But neither Stein nor Twentieth Century-Fox ever followed through with these plans.

The month before Stein came to Reagan's rescue, Stein received the annual Humanitarian Award of Variety Clubs International, which was held in the Empire Room of the Beverly Hilton. Among the 1,500 guests were Governor Reagan and his wife. Reagan praised Stein as "a truly great humanitarian," and an "old and valued friend . . . I know that this man in his own business has carried his principles into the lives of those who were known as his young men."

As his first term as California governor closed, Reagan had surprised many of his early critics and proved himself to be a competent public office holder. "By any standard," explained Lou Cannon, Reagan's principal biographer, "after nearly four years in office, Reagan's achievements were modest ones. After his initial fling at across-the-board budget cutting, he had become a fairly orthodox governor who had restored funds for higher education and provided money for a community mental health treatment program. . . . The top appointments in the Reagan administration were faulted by some critics for a pro-business bias, but generally accorded high marks for compe-

<sup>\*</sup>Reagan sold the Riverside property for \$856,500 in December 1976.

tence. . . . [T]here was not the suggestion of taint in any aspect of the administration. Even Reagan's stern law-and-order rhetoric had been tempered by reality.... All in all, Reagan's record as governor had been moderate and responsible but undistinguished."6

His campaign for president in 1968 was viewed as a diversion from his first term because his campaign took him away from pending matters of state. Nevertheless, his closest friends and those whose counsel he trusted had encouraged him to seek the presidency despite his own dilemma as to whether to run or not. In his absence, the governor's duties were administered by his executive assistant Edwin Meese, who was the architect of the organization of the Reagan administration in Sacramento.

"Reagan took the loyalty of his staff members seriously," said one observer. "He cultivated their loyalty and used it as a means to hold the governor's office together. He charmed his staff. Whenever he returned from an extended stay out of town, he habitually went from one end of the office to the other asking [about] everyone's welfare. He insisted that everyone's birthdays, especially those of the clerical staff, be celebrated during office hours, and he always attended the party whenever he was in Sacramento. He distributed jelly beans as a means to set people at ease. He passed out acknowledgments of appreciation —his own doodles, pens used to sign bills, autographed pictures—to those who worked with him. He told jokes in cabinet meetings. . . . He took part in none of the office squabbles. Staff and cabinet members made special efforts to avoid any open show of animosity because everyone knew he did not like such conflict. As a consequence, Reagan's closest aides were the ones who did the dirty work of disciplining people, of discharging the worst offenders and sanctioning the rest. ... He tried to leave work at five and told others to leave when he did."

While Reagan prospered, personally and politically, Hollywood crashed. By the beginning of 1970, Universal wasn't the only studio experiencing hard times. Paramount and Twentieth Century-Fox were financially crippled.\* Paramount was nearly sold by its parent company, Gulf & Western, to a nearby cemetery. Twentieth Century-Fox had to hold a public auction of its movie memorabilia, as did economically strapped MGM, which sold for \$15,000 the magic shoes Judy Garland wore in The Wizard of Oz.

<sup>\*</sup>Among MCA/Universal's difficulties were the medical problems of board chairman Jules Stein. Suffering from ventriculitis, affecting his intestines and stomach, Stein underwent exploratory surgery in December 1969, another operation in January 1970, and surgery for the third time the following month. However, the seventy-three-year-old Stein recovered.

Universal's problems, however, were short-lived. In 1970, Ross Hunter produced the star-studded Airport, based on Arthur Hailey's best-selling novel. Grossing \$80 million in domestic sales alone, Airport became one of the biggest money-making films in history and placed Universal—and MCA—back on top. The studio followed up with the critically acclaimed Diary of a Mad Housewife. And in 1971 Universal came back with The Andromeda Strain, Mary, Queen of Scots, and Play Misty for Me.

At Universal-Television, Wasserman promoted his protégé, a thirty-five-year-old Texas attorney named Sidney J. Sheinberg, to be its new president in 1970. Sheinberg had joined MCA in 1959, starting out in its legal department before being discovered by Universal-TV president Jennings Lang and becoming a vice-president of Lang's fiefdom in 1968. Sheinberg computerized Universal-TV and kept production costs to a minimum, to the delight of MCA. In 1971, Sheinberg helped MCA make television history again, producing the first mini-series, *Vanished*, a two-part, four-hour, exclusively made-for-television movie about the kidnapping of a top adviser to the president of the United States.

MCA was facing financial losses from its prime-time series, even its successful programs like Marcus Welby, M.D., It Takes a Thief, Adam-12, and Night Gallery. Consequently, MCA began to sell the programs to foreign markets, which dubbed them into French, Spanish, and Japanese, among other languages. These sales helped make up previous losses. More profits came when MCA, after leasing programs to the networks for two prime-time showings, then syndicated them to local stations. A new and exciting age had begun for MCA—which knew the television market was becoming wide open.

In 1970, Reagan ran for a second term as California governor. His Democratic opponent was Jesse Unruh, the speaker of the California State Assembly and a nemesis of the Republican governor since he first took office. Unruh was the quintessential back-room politician. He was an ambitious deal-maker and a ruthless legislator, yet he was well-liked and respected.

As with Pat Brown, Unruh had to face party renegade Sam Yorty in the Democratic primary. While Yorty thrashed away at Unruh, the Assembly speaker tried to keep the party together and defeated Yorty with sixty-four percent of the vote. The strength of Unruh's victory was such that he was widely considered a formidable candidate to run against the still-popular Reagan.

Unruh raised the issue of Reagan's property deal with Twentieth

Century-Fox—but only gently. He preferred to concentrate his attack on Reagan's millionaire friends. Unruh charged that they "don't need a governor because they can buy the governor's house and probably even the governor."8

Seeing that Unruh's offensive was doing some damage to his campaign, Reagan called Unruh "a demagogue," "a hypocrite," "dishonest," and "a man who has no regard for the truth."9

The Reagan-Unruh battle for the California governorship quickly became a no-holds-barred political free-for-all.

Courted by partisans of both Reagan and Unruh\* was Sidney Korshak, who was being viewed as among the most influential people in the state—perhaps even an institution himself. A former top official in the Justice Department explained, "During the Reagan-Brown campaign of 1966, Korshak pretty much stayed out of the fray. He was close to Brown, and he had a lot of friends who were working hard for Reagan. In 1970, things were a little different. He wasn't as close to Unruh although they certainly knew each other well—and he already liked how close he was to the center of power at the governor's mansion in Sacramento. So, Korshak, instead of staying out of it, backed Reagan when he ran for reelection."

In November, Reagan edged Unruh, carrying fifty-three percent of the vote. The extent of Korshak's alleged support in Reagan's victory remains unknown, although Frank Sinatra, a life-long Democrat and a close friend of Korshak, bolted from the party to support Reagan and appear at several political fund-raising events on his behalf.

In Nevada, more than a year before the end of his first term as governor, Paul Laxalt announced that he would not seek reelection. He explained that he was retiring from politics because he wanted to spend more time with his family, particularly his wife, with whom he had had seven children, including four who were adopted.†

Upon leaving the governor's mansion, Laxalt returned to his Carson City law practice in 1971, with Howard Hughes among his firm's first clients. Within a matter of days, one of his first tasks was to carry out a high-level favor for the imprisoned Jimmy Hoffa.

On January 26, 1971, Laxalt wrote a "Dear Dick" letter to President Richard Nixon, asking him to release Hoffa, whom he described as "a victim of [Robert] Kennedy's revenge." The entire letter read:

<sup>\*</sup>Attempts to interview Unruh for this book were unsuccessful. There is no evidence that either Reagan or Unruh personally solicited Korshak's support. †Two years later, he and his wife were divorced.

#### Dear President Dick:

The other day I had an extended discussion with Al Dorfman of the Teamsters, with whom I've worked closely the past few years.

He described for me in detail the history of Jim Hoffa's difficulties with the Justice Department.

This discussion, which described in detail the personal vendetta that Bobby Kennedy had against Hoffa, together with other information provided me over the years, leads me to the inevitable conclusion that Jim is a victim of Kennedy's revenge. This, in turn, convinces me that through vindictive action he has been and continues to be a political prisoner.

Without going into the merits further, since I'm certain you have been fully informed, may I add my support to those who are requesting Executive Intervention so that he can be released in March.

While I don't know Mr. Hoffa personally, I have had occasion to have a great deal of contact with Mr. Dorfman and the members of the Executive Committee of the Teamsters. As you know, their loans to Nevada resort hotels represent by far the greatest investment in Nevada. Their activities here have been "aboveboard" at all times and they have made a material contribution to our state.

Several months ago I had the members of the board [of the Teamsters] at the Governor's Mansion for a briefing of our State Gaming heads. The candidness, the spirit of cooperation which they extended, impressed all of us greatly. I cannot believe that the man who organized this group is the criminal type so often depicted by the national press.

The more I move along in life the more impressed by the inaccurate and tragically false images that are created by our national press [sic].

Intervention by the White House would be highly sensitive and would undoubtedly result in severe criticism in certain segments of our country. However, I know that hasn't deterred you in the past. Action of this type would restore and reinforce a great deal of faith in our federal government. Millions of "little people" would applaud your concern for one of them.

Most executives wouldn't touch this case with a "ten-foot pole." It's simply too hot a "political potato"—but the Dick Nixon I know has the guts not only to make the decision which should be made but dramatically explain it to the satisfaction of fair-thinking Americans. I hope that you do.

My thanks to you for taking a few minutes of your time to read this plea from a friend of yours.

Sincerely, Paul Laxalt

On December 22, 1971, Hoffa's prison sentence was commuted by Nixon. Hoffa was released the following day.

In 1972, Laxalt and his brother Peter built a new 237-room hotel/ casino on seven commercial acres two blocks from the state capitol in downtown Carson City and named the property Ormsby House. Opening in July 1972, the swanky casino featured two dice tables, one roulette wheel, eight blackjack tables, a \$25,000-limit keno game, a bingo game, and three hundred slot machines.

Laxalt and his brother invested only a total of \$1,851 of their own money in the venture that cost more than \$5 million. The rest of the funding came from three Nevada banks, the First National Bank of Chicago, and several private investors—including Bernard Nemerov, a former front man for Allen Dorfman and a known associate of others in organized crime. Nemerov purchased \$75,000 in stock and gave the Laxalts a \$475,000 loan for the project. Peter Laxalt later described him as "the eyes and ears" of the business, as well as the person who had "a direct line of communication with Paul Laxalt." Laxalt insists that he was unaware of Nemerov's shady past.

Paul and Peter Laxalt, the president and vice-president, respectively, of Ormsby House, were the only two shareholders with voting stock. Two other brothers, Robert and John Laxalt, were also directors of the corporation, but they held only nonvoting stock, like the other investors —including Nemerov, who was the "chief liaison officer."11

At the licensing hearing for Ormsby House before the Nevada Gaming Commission, the Laxalts expressed confidence that their funding was all in order. Peter Laxalt told the panel, "We feel at the present time that we have very adequate funding to carry this project forward through the tough winter months and for the expected future."12

Within a year, the Laxalts were having financial problems, which were complicated by Paul Laxalt's dispute with Nemerov over a matter that Laxalt has never publicly explained.

"The falling out was strictly over business," Nemerov claimed. "There were times when there wasn't enough money for the payroll, and I had to go into my own pocket and loan them the money. . . . When it comes to running a business, this guy's stupid."13

Paul Laxalt sought financial help by returning to the First National Bank of Chicago, where he had already received an initial \$950,000 loan, secured only by a personal guarantee from him and his family. In May 1973, the First National loan officer, Robert Heymann—the son of former MCA executive board member and Korshak associate Walter Heymann, the vice-chairman of First National—authorized an additional \$750,000 loan. This loan, secured only by pledges of casino stock, was partly used to buy out Nemerov the following month. First National later threw even more money into the pot, loaning Laxalt an additional \$200,000 in November 1973 and another \$200,000 in February 1974 to help keep the casino affoat.

Robert Heymann had a history of helping out Nevada casino owners. He explained that he had first met the former governor through one of Laxalt's clients, Delbert Coleman. Coleman had previously received millions of dollars in loans from the First National Bank of Chicago to help finance his earlier takeover of the Parvin-Dohrmann corporation, which had purchased the Stardust, Fremont, and Aladdin. These loans were administered by Heymann and were arranged by Sidney Korshak.

Heymann denied that either Coleman or Korshak had anything to do with the Ormsby House loans.

"My negotiations and dealings with Paul and his brother on the part of the First National Bank were strictly between their group and the bank," Heymann insisted. "The fact that he had been Coleman's attorney had nothing to do with the loans."

Laxalt has also firmly rejected the suggestion that either Coleman or Korshak were involved in the First National deal. Laxalt specifically denied that Coleman "was responsible for assisting me in the obtaining of finances and loans for Ormsby House." Laxalt added, "I have never been associated in any manner with Mr. Korshak... Mr. Korshak had no role in my conversations with Mr. Heymann."\*15

Ormsby House continued having financial problems after Heymann's dismissal. Executives of the First National Bank of Chicago consolidated Ormsby's loans—including those to the three Nevada banks—in a \$7.3 million package, accepting the hotel/casino as collateral. Laxalt legally avoided paying \$155,000 in federal income taxes from 1970 to 1975, using the casino as a tax shelter. The final sale of Ormsby House cost Laxalt an additional \$76,592 in taxes.<sup>16</sup>

Just when Laxalt was facing the most serious financial crisis of his career, Nevada Democratic senator Alan Bible announced that he was not going to seek reelection. Laxalt—who had previously given thousand-to-one odds against his ever returning to politics—immediately made his bid for the senate seat. His Democratic opponent was Nevada's lieutenant governor, Harry Reid. They were both challenged by a third-party candidate.

<sup>\*</sup>In 1974, Heymann was fired from the Chicago bank after a federal investigation revealed that he had been on the payroll of a New Jersey company, which had received nearly \$30 million in First National loans. Heymann was later indicted for his activities and has since pleaded guilty.

"It was a hotly contested election," said Reid. "Paul had an effective campaign. I brought up his personal finances and the Ormsby House matter as campaign issues, but, frankly, they went nowhere. He was just too strong in the northern part of the state [Carson City and Reno, among other towns], and that's where he beat me."17

In the end, after a recount, Laxalt's forty-seven percent of the total vote ensured him a victory by the narrow margin of 624 votes.



IN DECEMBER 1972, Lew Wasserman announced that MCA would soon be marketing a new technological breakthrough in home entertainment. During a dramatic demonstration, motion pictures and other programs were placed on video discs and played on home machines hooked up to standard television sets. Like a long-playing record, the disc was thin and flexible, while the player resembled a stereo turntable which "read" discs with a laser-beam stylus. MCA had begun to explore this potential market in 1965 and was now looking for a manufacturer.

MCA's search for a partner/manufacturer for its "Disco-Vision" venture ended up at the doorstep of N. V. Philips, a large Dutch electronics firm and the thirteenth-largest corporation in the world, the third-largest outside the United States. It had also recently acquired Magnavox, the television company. The idea behind the prospective partnership was that Philips's responsibility was to manufacture the hardware, and MCA's responsibility was to produce the programs for the software.

The negotiations between the two companies were tough, particularly after MCA tried to put a leash on Philips. In a letter to Wasser-

man, Jack Findlater, the president of Disco-Vision, wrote, "Under no circumstances will Philips agree to limit their sales or other activities to Europe or anyplace else. . . . Philips operates globally and they intend to sell video-disc hardware world-wide in competition with other manufacturing companies to whom licenses are granted or who have systems of their own. If that is not possible, there can be no deal."1

After two years of hard bargaining, the problems remained but were slowly being worked out. Findlater told Sheinberg, "[T]he way the contract would read is that Philips can include its own issued patents in any such multi-product cross-license but no know-how or trade secrets: that if the cross-licensee wants any MCA-developed patents or technology they would have to come to MCA for that; and if they do. then MCA keeps one hundred percent of any licensing income it receives—Philips does not participate.

"The risk MCA would assume with this approach does not appear to be substantial. . . . "2

Finally, in September 1974, the MCA-Philips deal was finalized; the two corporations held equal shares from licensing agreements made through their new, joint operation. However, MCA would not share in Philips's revenues from the sale of players, and Philips would not share in MCA's revenues from the sale of discs. Ready to proceed, Lew Wasserman—who was driving around Los Angeles in a Mercedes roadster with California tags that said "MCA-1"—had high hopes that Disco-Vision would be the crowning glory of his incredible career.

In 1972, Henry Denker, a well-known New York writer, producer, and director, wrote The Kingmaker, a thinly disguised, fictional account of the rise of MCA. The Jules Stein character, Dr. Irwin Cone. is the founder of the Talent Corporation of America, TCA, which busily combats the Justice Department's Antitrust Division while attempting to make a popular has-been actor, Jeff Jefferson, into a legitimate political figure.

The book began with the inauguration of Jefferson as the governor of California. Denker wrote: "To take a man who had been an actor. a man without a single day's experience in government, and catapult him to the highest office in the state was an achievement. And nothing to feel guilty about.

"If there had to be blame, place it where it belonged. On the system which sanctioned it. On the people who permitted it. On the media which allowed themselves to be manipulated so easily.

"All the Doctor had done was to apply the same basic rule to politics as he had to developing TCA into the leading power in the entertainment industry.

"A lifetime ago he had been instructed by an expert, a man of primitive but deep insight: 'Never waste your muscle. Find out where the weakness is and put your muscle there.' "3

Interestingly, there was no Lew Wasserman character in Denker's book, but Wasserman found reason enough to call Denker's book a "piece of garbage."

Stein had remained involved in politics. He and Taft Schreiber had contributed \$118,000 and \$68,000 respectively to President Richard Nixon's 1972 reelection campaign. Schreiber was also a co-chairman of the finance committee of the Committee to Reelect the President.

According to an FBI document, Stein, who had been to Nixon's Western White House in San Clemente, had been asked for his contribution to the CRP by Schreiber, who then invited Stein to another meeting with the president. The FBI report stated: "On April 5, 1971, President Nixon had held a meeting at his San Clemente home which was attended by approximately thirty people who were interested in the movie and communications industry. It was attended by members of the Teamsters Union and other such individuals including several studio executives from the Los Angeles area. During this meeting the members furnished their views to the president regarding their belief that tax investment credit should be given to the movie industry, the prime-time access rule concerning television, support for the copyright laws regarding the recording industry, and their views concerning cable television."

Although the report stated that Nixon "made no commitment whatsoever," Stein agreed to make his large contribution after this meeting.

Schreiber's name came up in another FBI report. "On 6/6/73," the document stated, "source advised that John Mitchell, former attorney general of the United States, was at a party for Pat Nixon at [Taft] Schreiber's house in Beverly Hills, California, on the night that word was received about the break-in at the Democratic Headquarters. Source advised that Mitchell had no drinks and appeared extremely nervous throughout that evening."\*5

Governor Ronald Reagan was one of Nixon's chief defenders, insisting that the Watergate conspirators were "not criminals at heart."

<sup>\*</sup>Mitchell—who had resigned as Nixon's attorney general to head the president's campaign committee—was later convicted of obstruction of justice and perjury in connection with his role in the planning and cover-up of the Watergate break-in.

Reagan had also been present at Schreiber's party—along with actors Jimmy Stewart and John Wayne, among others—and had held a joint press conference with Mitchell earlier in the day.

While Stein and Schreiber were busy helping Nixon, Wasserman had other matters on his mind. In December 1972, he named Sidney Sheinberg as the executive vice-president of MCA, opening up speculation throughout the entertainment industry and Wall Street that Sheinberg was being groomed to be Wasserman's handpicked successor. Wasserman also appointed H. H. Martin as the new president of Universal Pictures, succeeding Milton R. Rackmil, who became the studio's "president emeritus." The MCA president also signed a long-term contract with David Brown and Richard D. Zanuck—who had become an independent producer after losing a proxy fight against his father at Twentieth Century-Fox in 1971 and a subsequent battle with Warner Brothers, which had since been taken over by Warner Communications.

By the end of 1972, MCA had shattered all records with revenues totaling almost \$350 million and profits of nearly \$21 million.

On May 22, 1973—after Wasserman was given the Jean Hersholt Humanitarian Award at the Academy Awards ceremonies—seventyseven-year-old Jules Stein shocked the entertainment industry by resigning as the chairman of the board of MCA. Just as quickly, the sixty-year-old Wasserman—who had made \$250,000 during his twenty-seventh year as MCA president—was named to succeed Stein. and Sidney J. Sheinberg was selected as MCA's new president. And Frank Price replaced Sheinberg as the head of Universal-Television. Sheinberg, thirty-seven, who was immediately given a \$156,000 annual salary, beat out thirty-year-old Thomas Wertheimer, an MCA vicepresident for financial affairs, for the job. The corporate changes became effective as of June 5, 1973, at the MCA board of directors meeting, where Stein was officially given the title "Honorary Founder." Stein told reporters that he would continue as a director but would concentrate on his medical philanthropy causes, adding, "Mr. Wasserman has been the quarterback; he's been calling the plays."\*

During the fall of 1973, MGM's Kirk Kerkorian decided to sell his studio's theatres and properties in its overseas markets. The immediate reason was a plan to construct the MGM Grand Hotel in Las Vegas.† The buyer of MGM's overseas assets was the Cinema International

<sup>\*</sup>Stein left MCA holding 1,687,294 shares of stock, or twenty-one percent of the company. Wasserman held 869,083 shares, 10.4 percent of MCA.

<sup>†</sup>Kerkorian purchased from Moe Dalitz the land on which the MGM Grand was built; he paid Dalitz \$1.8 million.

Corporation, which had been created jointly by MCA and Gulf & Western and its Paramount subsidiary. The CIC had been organized to expand the lucrative foreign distribution businesses of both corporations—and to avoid U.S. antitrust laws that had plagued MCA and G & W. Personally negotiating with Kerkorian were Wasserman, representing MCA, and Charles G. Bluhdorn, the chairman of the board of Gulf & Western. Sidney Korshak was selected to mediate the negotiations, which culminated with CIC's purchase of the overseas package for nearly \$93 million.

"Mr. Korshak was very close to Wasserman and Kerkorian and played a key role as a go-between," Bluhdorn said. "It was a very, very tough negotiation that would have broken down without him."

Korshak received \$250,000 for helping to make the deal, which was signed at the Bistro in Beverly Hills.

Incredibly enough, Korshak, a multi-millionaire, needed the money. The previous fall, the Chicago office of the IRS had charged him with fraud and negligence, resulting from his alleged failure to pay \$677,000 in federal income and gift taxes. The IRS also asked the U.S. Tax Court in Washington, D.C., to impose a \$247,000 penalty on Korshak. According to IRS records, government auditors discovered that Korshak and his wife had only declared \$4,481,703 in taxable income between 1963 and 1970, when his real taxable income was \$5,080,987. Documents showed that Korshak had not paid \$13,031 in gift taxes on stocks worth \$115,124—from Parvin-Dohrmann, Pizza Hut, and City National Bank—that he gave to his two sons, Harry and Stuart. Also, the IRS charged that Korshak had falsely declared a \$10,000 gift to Jill St. John as legal fees paid to her attorney. The IRS examiner auditing Korshak's taxes concluded that Korshak's actions were "intentional and substantial."

The litigation was settled just before the case went to court, with the IRS dropping all charges against Korshak and agreeing to allow him to pay only \$179,244, twenty percent of the initial demand.

In early 1974, after Wasserman named Sheinberg as MCA president, he stepped down as the chairman of the Association of Motion Picture and Television Producers.\* He was replaced as chairman by Gordon T. Stulberg, the president of Twentieth Century-Fox; MCA's Sid Sheinberg was named vice-chairman. The move ensured Universal's

<sup>\*</sup>The nine members of the AMPTP were Universal, Paramount, Columbia, Twentieth Century-Fox, Metro-Goldwyn-Mayer, Warner Brothers, United Artists, Avco-Embassy, and Allied Artists. All operated as production/distribution companies, with the exception of MGM, which had an exclusive distribution contract with United Artists.

continued influence over labor negotiations, especially with Wasserman serving as a behind-the-scenes powerbroker and deal-maker-sometimes with the help of his close friend, Sid Korshak. When a major problem arose, the Hollywood powers still turned to Wasserman for advice. Others, like American Airlines and the California Institute of Technology, sought his counsel by naming him to their boards of directors. At a testimonial dinner thrown for Wasserman in Beverly Hills by the entertainment industry in late 1974, he was even honored by IATSE\*—whose president over the past thirty-three years, Richard Walsh, had retired earlier that year and was succeeded by Walter F. Dienl.

The year 1973 was a blockbuster for Universal Pictures. American Graffiti, producer Francis Ford Coppola and director George Lucas's rock-and-roll film about four teenagers growing up in the 1950s, earned \$52 million against a production cost of \$1 million. The film's soundtrack provided an additional bonanza for MCA.

In December 1973, Universal released The Sting, starring former MCA Artists clients Paul Newman and Robert Redford, who played two con men who try to swindle an Irish gangster who ordered the murder of a mutual friend, in the studio's biggest moneymaker for 1974 and one of the biggest grossers of all time. The film won the studio its third Academy Award for Best Picture, the first since MCA took over the company.

"You need to make a minimum number of films a year," said Universal executive Ned Tanen. "There are films you come across that look very safe. The downside risk is fairly minimal, so therefore we will take them on. You do enough of these films and out of that group will suddenly emerge a picture that is a huge hit."8

Universal had also produced Steven Spielberg's highly acclaimed Sugarland Express, as well as three big box-office smashes: Earthquake, with "Sensurround" providing realistic rumbles; and The Towering Inferno and Airport 1975 in 1974, the latest in a series of star-studded disaster films trying to mimic the success of Airport.

Traditionally, MCA would wait until television series had been can-

<sup>\*</sup>In February 1973, Wasserman was singled out by IATSE for his intervention in a stalemated labor dispute between the union and television producers. Called a "hero" by IATSE officials, "Wasserman was the guy who clinched the deal, really," an IATSE leader told Will Tusher of The Hollywood Reporter. "He was the only one that we listened to. The only one of that group we believed was Wasserman. He made two or three really brilliant talks. . . . You've got to hand it to Wasserman. I think he saved the day." Of his negotiating skills, Wasserman told Tusher, "you accomplish unanimity by locking people in various rooms-I might add, without any bathrooms. It's amazing how many deals have been finalized because of a lack of a washroom.

celed before it would syndicate them to local stations. That practice was abandoned in 1972-73. Even though programs such as *Columbo*, *McMillan and Wife*, and *McCloud* were still hot after three years of production, MCA's syndication rights division immediately began to sell them locally, capitalizing on the shows' current popularity—thus increasing the price of syndication. Later, MCA would go even further, offering 104 episodes of *The Six-Million-Dollar Man* if the buyer gave MCA an option to sell the buyer thirteen episodes of *The Bionic Woman*. Both programs had been broadcast on ABC.

An attorney in the Antitrust Division, who was monitoring MCA for possible antitrust violations, wrote, "In short, MCA is using the power of Man to make sure that it gets syndie money from Woman (in a deal that reportedly was set up before Woman went on the ABC [schedule])."

Spencer Gifts mail-order and retail-store division had a record year in 1972. With plans being made to expand Spencer to over four hundred stores around the country, total revenues from Spencer's current outlets were \$61,446,000, a thirty-four-percent increase over the previous year. Since MCA had purchased Spencer in 1968, sales had tripled.

MCA's Trans-Glamour tours—an open-air bus ride through Universal City, planned and executed by MCA vice-president Albert A. Dorskind and Cliff Walker, a renegade from Disneyland, Inc., in 1964—were being taken by nearly two million visitors each year. The tours produced millions of dollars of clear profit for only the cost of, among other items, bus and property maintenance and tour guides, who were usually attractive college students hoping to be discovered, who gladly worked for low wages. The money made from a few of the many souvenir stands covered these expenses.

For the price of admission, the curious saw Western gunfights acted out with stuntmen who fell off buildings after being "shot," how animal trainers prepared their pets for cameo film appearances, and a glimpse of Norman Bates's hilltop home in Alfred Hitchcock's *Psycho*. Occasionally, a star or two would be available to talk shop and sign autographs. A family could easily spend the rest of the day—as well as their vacation money—walking around and seeing the sights after the bus trip. The program was so successful that MCA had already expanded Trans-Glamour and added Landmark Services in Washington, D.C., where tourists received bus tours of the nation's capital and its monuments.

MCA had also developed the large-stage, 3,800-person capacity Uni-

versal Amphitheatre, which became a tourist attraction in itself, as well as a treat for natives of southern California. The new facility had been built to accommodate concert and theatre performances. At the end of 1972, MCA added Yosemite Park and Curry Company—encompassing the food, lodging, and transportation concessions at Yosemite National Park in the Sierra Nevada Mountains in central California—to its Recreation Services Division.

At the end of July 1974, Universal announced that during the first six months of 1974, its profits were higher than in any six-month period in the history of the company. And the news would only get better.

Universal hit the mother lode with the spring 1975 release of Jaws, a Steven Spielberg tale of a great white shark's invasion of Martha's Vineyard during the Fourth of July holiday. It costarred Lorraine Gary, Sid Sheinberg's actress-wife. Another record-breaker at the box office, Jaws became the biggest money-making film in motion picture history.\*

Universal had become a movie factory, cranking out films like Congress cranks out legislation—but with better quality control and discipline. Few celebrities basking in the excitement and glamour of Hollywood thought of themselves as being workers on an assembly line. But under contract at Universal they were. Schedules and budgets were etched in stone, and no one fooled with them once they were decided.

"The assembly line . . . ," one description stated, "is organized into three phases. In preproduction, budgets are drawn up, personnel assigned, and sets designed and built. . . . Then comes production—what most people think of as moviemaking—where the actual shooting takes place. Once the cameras quit rolling, the raw film and soundtracks are delivered to film editors and dubbing specialists in the postproduction department. The entire process takes from eight weeks for a thirtyminute TV show to a year for a full-blown movie.

"To coordinate the whole operation MCA has developed some special techniques. At 1:30 every afternoon the technical-department heads meet in a 'war room' with the unit managers of all the production companies to talk over personnel and equipment allocations for the next day's shooting. The discussion gets down to such items as battle-

<sup>\*</sup>According to Variety, the twelve all-time top-grossing films in 1976 were Jaws, The Godfather, The Sound of Music, Gone With the Wind, The Sting, The Exorcist, The Towering Inferno, Love Story. The Graduate, Doctor Zhivago, Airport, and American Graffiti. Soon after the release of Jaws, Jules Stein put a sign on his front gate, warning: "Beware of Guard Dogs and Sharks."

scene explosives and doughnuts for the crew. By paying attention to detail, MCA's managers have earned a reputation as the maestros of the bottom line."<sup>10</sup>

With MCA so incredibly attractive and corporate mergers becoming an everyday event, the MCA board of directors decided to insulate the company against a possible hostile takeover by amending MCA's bylaws. The new amendment required that seventy-five percent of MCA's stockholders had to approve of any attempt to absorb the corporation.

"I wanted to protect the future management and the board to the maximum degree possible," said Lew Wasserman. "If the board wants to make a deal, fine. They've got total authority, whoever is on the board at that time. I just don't want them to be sitting ducks, spending all of their time worrying about being raided."

There was one area where MCA was enjoying less than success. It was having enormous technical problems with Disco-Vision. RCA had emerged as MCA and Philips's most serious competitor in the video-disc market, claiming that its system, SelectaVision, would be less expensive and easier to make and service than Disco-Vision. The individual discs for both systems were to cost two dollars to ten dollars. As the MCA-RCA race for control of the home video market was neck-and-neck, the Sony Corporation—which was developing its own system, using audio/videotape cassettes—was coming fast from behind. Other companies in the field included Matsushita-Panasonic, the 3M Corporation, Bell & Howell, TPC, Zenith, Telefunken, CSF Thomson, and Eastman-Kodak.

To add to MCA's growing concern for Disco-Vision, the Justice Department's Antitrust Division was again investigating MCA—because of "the possible anticompetitive affects" of its prospective uses of the pending patent of its system.<sup>12</sup>

On August 25, 1975, Willie L. Hudgins, the attorney in charge of the probe, recommended that charges be filed against MCA and Philips for violations of the Sherman Antitrust Act, specifically, among other things, for "forming a technology pool to handle all licensing of their video-disc technology," and because "MCA's programming will be used exclusively to support the joint Philips-MCA video-disc system." Hudgins believed that this situation would have the adverse effect of "eliminating competition between Philips and MCA in research and development," which would result in the "restricting and suppressing [of] competition in the purchase of patents and patent rights covering video disc technology."<sup>13</sup>

Hudgins asked that the MCA-Philips partnership be disengaged and

"that the defendants be required to make available [all of their technologyl on a royalty-free basis to any applicant interested in developing video-disc technology" created by both MCA and Philips.

There was still another complication on the home entertainment front. Almost twelve years after former NBC president Pat Weaver lost a 1964 statewide referendum, hoping to get approval for the establishment of pay TV in California, cable television came of age during the mid-1970s. Home Box Office, owned by Time, Inc., began offering subscription services to the general public. HBO, which distributed its programs via satellite, offered viewers movies from the studios' film libraries, as well as first-run specials produced exclusively for subscribers and a variety of sporting events.

The difficulties plaguing MCA did not stop Wasserman and his wife, Edie, from throwing a big Hollywood party at their Beverly Hills home in honor of Henry Kissinger, President Gerald Ford's secretary of state. The guests included: William French Smith, Paul Ziffren, Taft Schreiber, Jules Stein, and Sidney Sheinberg—along with Cary Grant, Kirk Douglas, Danny Kaye, Rosalind Russell, Alfred Hitchcock, and Gregory Peck. "Show business people and politicians aren't that dissimilar." Kissinger replied to a Wasserman toast, "except that politicians play only one role and have a shorter life."

"The Wasserman driveway and the house itself were jammed with Secret Service men as well as Superstars, Super-producers, Super-directors and Super-distinguished citizens," gushed Los Angeles Times gossip columnist Joyce Haber. "The living room was California-fresh with plants and flowers. Someone remarked correctly that Edie, the hostess, does parties so well that if she ever stopped, florist David Jones would be out of business. Each lady found a spring flower on her napkin at dinner. The dinner itself started off with a baked potato topped by Iranian caviar and ended with Dom Pérignon."14

Kissinger, who attended the party with his new wife, Nancy, had previously dated Jill St. John. During their romance, the press frequently speculated about the possibility of marriage between the two. When asked what he might do after he left the government. Kissinger replied, "I'm thinking about going into the movies. I've got the connections now."15

# CHAPTER THIRTY-TWO

In 1976, New Jersey voters approved a state referendum to legalize gambling in Atlantic City. Within two years, casino gambling would be in operation. However, what worried the Nevada gaming community was not the competition of Atlantic City or the 1976 death of billionaire recluse Howard Hughes but the forced end of all loan commitments to its casinos from the Teamsters Central States Pension Fund. After years of corruption and fiduciary mismanagement, the pension fund—which had loaned hundreds of millions of dollars to Nevada casinos—was placed by the federal government in the supervisory hands of private investment firms.

In 1976, Frank Sinatra bought five percent of the Las Vegas-based Del Webb Corporation along with his attorney Milton Rudin. Sinatra had had his interest in the Cal-Neva Lodge, a casino in Lake Tahoe, revoked in 1963 by the Nevada Gaming Control Board because of his ties to Chicago mobster Sam Giancana. The 1976 deal was an attempt by Sinatra to move back onto the Nevada gambling scene. But the Nevada Gaming Commission stepped in, insisting that Sinatra and Rudin be licensed since their share in the company was so large. Although Rudin was appointed to Webb's board of directors, Sinatra

backed off from the company, not wanting another confrontation with law-enforcement authorities.

Soon after Nevada senator Paul Laxalt came to Washington in 1975. his Ormsby House was near financial collapse, forcing the Laxalt family to find a buyer. In 1976, its new owners simply assumed the \$8.5 million debt the hotel/casino had amassed. Laxalt walked away from Ormsby House suffering a major loss, and preaching the gospel of the risky business of casino ownership.

"People have the mistaken impression that all you have to do is build a casino and open the doors and then reserve a vault in Fort Knox," Laxalt said, "It plain doesn't happen that way, and I say that from my own experience. . . . The lead time of almost every Nevada casino, almost without exception, is close to five years before it flies. And this requires continued financial subsistence."1

In the midst of the failure of Ormsby House and his new marriage to his long-time secretary, Carol Wilson, Laxalt quickly became involved in national politics, trying to convince his friend Ronald Reagan to challenge President Gerald Ford for the Republican nomination. In July 1975, with the support of some of Reagan's long-time backers, Laxalt formed the Citizens for Reagan Committee, which also included Holmes Tuttle, Henry Salvatori, William French Smith, William A. Wilson, and Jules Stein.\*

"They've known each other since the mid-1960s, since the Goldwater campaign," said Reagan's 1976 campaign manager, John Sears. "After they were elected the governors of their states—Reagan in California and Laxalt in Nevada—they became closer. They principally got together during meetings of the Western Governors' Conference, where they discussed such issues as water rights and other functions in which politics and individuals interact. But they both loved the outdoors. They both liked horses and wore cowboy boots. . . . Reagan and Laxalt really became close during Reagan's first campaign for president [in 1968]. A lot of people were skeptical of Reagan's chances, and Laxalt was one of the few national elected officials to stand beside him."2

Reagan aide Jude Wanniski explained, "Laxalt was very anxious for Reagan to run against Jerry Ford, because he thought Ford was the Eastern-wing candidate, typifying business-as-usual Washington. Laxalt felt that Ford served the interests of the establishment rather than

<sup>\*</sup>Reagan Kitchen Cabinet member A. C. Rubel died in 1967.

the free markets. This is what brought Reagan into the race. Laxalt, very early, kept pushing and yelling, 'Come on! Come on!' Reagan resisted until he finally realized, 'Yeah.' "3

Since leaving the governor's mansion in California, Reagan had started a daily radio commentary program, which was carried by nearly three hundred stations, and wrote a newspaper column that was syndicated by over two hundred newspapers. Even though the Republican Party had been hurt by President Nixon's resignation, Reagan's popularity remained undiminished. According to public opinion, Reagan was still "Mr. Clean."

Despite his challenge of Gerald Ford's bid for a full term as president, Reagan was supportive of his opponent, especially after Ford had pardoned Nixon. Reagan was among those who stated that Nixon "had suffered enough"; thus he felt that Ford's pardon of the former president was justified.

In the days preceding the 1976 Republican convention, Reagan shocked everyone by selecting his vice-presidential candidate in advance, Pennsylvania senator Richard Schweiker, a moderate who had been a member of the U.S. Senate Select Committee investigating the CIA-Mafia plots to assassinate Fidel Castro\* and had been selected to co-chair, with Democratic senator Gary Hart, a special Senate inquiry into the assassination of President Kennedy. Schweiker was respected by both conservatives and liberals. Liberals were as shocked that he had accepted Reagan's offer as conservatives had been that Reagan made the offer in the first place. The controversy quickly became academic when Ford defeated Reagan on the GOP convention's first ballot.

Reagan's defeat was the second big blow he suffered that summer. The first came on June 14 when his long-time friend and political supporter, MCA vice-president Taft Schreiber, died after being admitted to the UCLA Medical Center for "minor and routine prostate surgery." Schreiber entered the hospital on June 3 and was operated on the following day. Schreiber was administered a mislabeled transfusion, causing a "hemolytic transfusion reaction, renal breakdown and other complications." However, Schreiber's cause of death was not known until the coroner's autopsy report was released on July 21. The report

<sup>\*</sup>In 1975, a U.S. Senate Select Committee investigated the CIA-Mafia plots to assassinate Cuban premier Fidel Castro. Two of the suspected conspirators, Sam Giancana and Jimmy Hoffa, were murdered in the midst of the investigation. Johnny Roselli, who had continued being a familiar face in Hollywood, did testify before the committee—but was later found dismembered and badly decomposed in a fifty-five-gallon drum floating in Florida's Biscayne Bay. He had been last seen on a boat owned by Santos Trafficante, one of his co-conspirators in the Castro plots. (See Dan E. Moldea, *The Hoffa Wars*, chapters 18 and 19.)

showed that Schreiber had died "due to complications of a transfusion reaction due to incompatible blood after prostate surgery."

Using the coroner's findings, Schreiber's widow, Rita Schreiber, and her two children filed a "wrongful death" suit against the Regents of the University of California, charging "medical malpractice," according to court records. The case was later settled with the final terms undisclosed.

In late 1976, the Sony Corporation announced the production of the new Sony Betamax system, which used audio/videocasette tapes. MCA and Walt Disney Productions immediately sued Sony for copyright infringement, because home viewers could use the Sony Betamax to record television programs from a receiver and replay them over and over again. Obviously, Universal, Disney, and the rest of the studios preferred that viewers not be taping their programs and film libraries sold to television. Aside from recording television programs and playing prerecorded tapes, the Betamax offered the consumer an optional camera to film home movies. Disco-Vision only offered the viewer the ability to play prerecorded programs. The Sony technology had been tried and tested, and was ready to be marketed. On the other hand, the MCA-Philips effort, which was still having trouble with its patents and overall cost, was not. MCA hoped that its suit would delay Sony from gaining the lead in the potentially billion-dollar home entertainment industry.

In an expression of frustration, Sidney Sheinberg told reporters, "If Sony's Betamax prevails, I don't know if there will be a video-disc industry ultimately."

Earlier, a meeting was held in Los Angeles between the Antitrust Division and lawyers representing Philips; for unknown reasons, MCA's attorneys did not attend. After hearing the government's lead attorney, Willie Hudgins, explain the investigation, Sam Rossell, Philip's in-house counsel, protested that if Disco-Vision was stopped, RCA, which was already ahead of MCA-Philips, would completely dominate the video-disc market. He added that, because of all the problems MCA-Philips had faced, their program was a year behind schedule, and their products would not be available until late 1977. Without any resolution to the situation, Philips's attorneys simply asked that they be permitted to argue their case again before the government officially filed antitrust charges.4

A few weeks later, MCA lawyer Allen Susman wrote a letter to Thomas E. Kauper, the head of the Antitrust Division in Washington, insisting that there was no cause for an antitrust suit. "[A]ny action against MCA and Philips . . . would be not only unsustainable, it would have an immediate and long-term substantial anticompetitive impact."

Susman continued, "In 1974 top executives of MCA became convinced that MCA had developed the better [audio/visual playback system]; however, the world was not beating a path to MCA's door. Since millions of dollars had been spent by MCA on their new [system], this lack of enthusiastic response naturally led the company to question how it ended up in this position."

While the problems with Disco-Vision continued, Wasserman became closer to former Georgia governor Jimmy Carter, who had become the presidential nominee of the Democratic Party for the 1976 general election. In an interview, with W magazine, Carter said of Wasserman, "I met him when I was still governor of Georgia. When I decided to run [for president], Mr. Wasserman was one of the first out-of-state people I told. People respected his judgment in business, international affairs, and political affairs. When he let his friends know he had confidence in me, it was extremely helpful." The MCA chairman threw a fund-raiser for Carter\* in August. Among those in attendance was Sidney Korshak.

Two months before the party for Carter, the sixty-nine-year-old Korshak was the target of a major four-part investigative series from June 27 through June 30, 1976, in *The New York Times*. It was written by Pulitzer Prize-winning journalist Seymour M. Hersh. Along with his collaborator, Jeff Gerth, Hersh had spent six months doing research. Their report was the most penetrating and detailed analysis of Korshak and his power yet written. "To scores of federal, state and local law-enforcement officials," the *Times* stated, "Mr. Korshak is the most important link between organized crime and legitimate business." The series described him as "a behind-the-scenes fixer' who has been instrumental in helping criminal elements gain power in union affairs and infiltrate the leisure and entertainment industries."

Although Korshak refused to be interviewed, several who knew him did speak on the record. Wasserman said that Korshak was a "very good personal friend. . . . He's a very well respected lawyer. He's a man of his word and good company." When asked about the allegations of Korshak's ties to the underworld, Wasserman replied, "I don't believe them. I've never seen him with so-called syndicate members or organization members."

<sup>\*</sup>After being elected, Carter appointed former MCA legal counsel Cyrus R. Vance as secretary of state.

Stating that Korshak was "entrenched in Hollywood's social and business structures," Hersh and Gerth reported that he was a close friend of Gulf & Western chairman Charles Bluhdorn. "Their meeting had been arranged in 1969 by Robert Evans, the successful Paramount executive and close Korshak friend [and client], shortly after Gulf & Western purchased Paramount.

"Mr. Korshak often used his influence and his skill as a mediator to solve problems for Gulf & Western.

"For example, Mr. Bluhdorn recalled that during early casting for The Godfather, one of the biggest successes at Paramount, his company's subsidiary, Mr. Korshak obtained for the production the services of Al Pacino, the actor, then under contract to MGM."

Hollywood columnist Joyce Haber added, "Sidney Korshak is probably the most important man socially out here. If you're not invited to his Christmas party, it's a disaster." Haber, in a January 1975 column, identified the "The Big Six" in Hollywood social circles as "the Paul Ziffrens, Lew Wassermans, and Sidney Korshaks."

According to the Times, although never indicted, Korshak had been named in no less than twenty organized-crime investigations and had been called as a witness before no less than a half-dozen grand juries.

The reaction to the Hersh series on Korshak was favorable in Chicago, generally unreported in Los Angeles, and hostile in New York. Columnist Nat Hentoff, a respected civil libertarian, was enraged. "To be crudely accurate about it. The New York Times . . . set out to get Sidney Korshak. . . . Tom Jefferson may not have had this mouthpiece precisely in mind when he envisioned the democratic populace two centuries hence but he could not have excluded even him from the Bill of Rights."

Objecting especially to the FBI inside information used in the report, Hentoff wrote that he saw "no First Amendment problems in punishing officials in the criminal justice system who have violated Sidney Korshak's rights by leaking protected information to Sy Hersh. I am assuming, by the way, that Hersh did not conduct his own black-bag jobs into the FBI to get the kind of material that has so badly damaged Korshak."6

Korshak had been hospitalized in Chicago for an intestinal disorder in the midst of Hersh's series, but he was still loved in Hollywood. Three days after the Times series, Korshak was among three hundred guests at the Wassermans' fortieth wedding anniversary party. According to published reports, when Korshak was getting ready to leave the affair, Wasserman embraced him. To no one's surprise, film producer Harry Korshak, Sid's son, had his first film released for Universal—Gable and Lombard, a fictitious rendering of the love affair between film stars Clark Gable and Carole Lombard, starring James Brolin and Jill Clayburgh. In August, Sid Korshak's wife, Beatrice, was Barbara Marx's matron of honor at her wedding to Frank Sinatra, which was held at Walter Annenberg's home in Palm Springs.\* And the following month, he was in attendance at a testimonial dinner honoring Charles Bluhdorn, arranged by Barry Diller, Paramount's new chairman of the board.

Despite the *New York Times* series, 1976 turned out to be another banner year for Korshak. Instead of being viewed as a corrupt, Mafiabacked lawyer, he was regarded as a Hollywood institution of legendary proportions and continued to be feared, respected, and even revered by those who brought the American public what they viewed on television and at their local movie theatres.

<sup>\*</sup>Ronald and Nancy Reagan took time out from his 1976 presidential campaign to be among the 130 guests at Sinatra and Marx's wedding.

### CHAPTER THIRTY-THREE

THE PHOTOGRAPH WAS REAL. After years of denying his associations with major Mafia figures, Frank Sinatra was pictured in his dressing room with several top mobsters, including New York syndicate head Carlo Gambino and Los Angeles Mafia boss Jimmy Fratianno.\* The 1976 photograph was admitted as evidence in a New York grand jury fraud investigation, stemming from the bankruptcy and wholesale skimming of the Westchester Premier Theater—which would lead to the indictments of several Mafia figures, including three mob associates who also appeared in the picture with Sinatra: Gregory DePalma, Thomas Marson, and Richard Fusco. Adding to Sinatra's woes was the revelation that the telephone of his personal secretary had been wire-tapped by federal investigators, because it was thought that she knew about the skimming operation. However, neither Sinatra nor his secre-

<sup>\*</sup>Sinatra performed at the Westchester Premier Theatre three times in 1976 and 1977. Regarding the photograph, Sinatra insisted to Nevada gaming authorities, "I was asked by one of the members of the theatre. . . . Mr. Gambino had arrived with his granddaughter, whose name happened to be Sinatra, a doctor in New York, not related at all, and they'd like to take a picture. I said, 'Fine.'

<sup>&</sup>quot;They came in and they took a picture of the little girl and before I realized what happened, there were approximately eight or nine men standing around me and several other snapshots were made. That is the whole incident that took place."

tary were charged with any wrongdoing. The bugging had begun while Sinatra and Dean Martin had been performing at the theatre.

In early 1977, during an investigation of corruption in Las Vegas, the FBI had tapped the telephones of Marson and DePalma. On one of the tapes, DePalma said that he and his business partners were planning "to siphon off money at an upcoming Frank Sinatra appearance at the Westchester Theater in New York to keep [the money] from bankruptcy officials."

Owned by DePalma, Fusco, and Eliot Weisman, the 3,500-seat West-chester Theater in Tarrytown, New York, which opened in 1975, was a popular entertainment center where celebrities performed before sell-out audiences. Gambino, who had loaned the Westchester Theater \$100,000 to help in its construction, died in 1976 before the indictments were handed down. Funzi Tieri, who headed the notorious Vito Genovese crime family in New York, and Fratianno were named as unindicted co-conspirators in the case. A Tieri associate, Louis Pacella, reportedly a close friend of Sinatra, was indicted for allegedly skimming \$50,000 from the theatre.

Also implicated in the scheme were two top executives of Warner Communications: Solomon Weiss, Warner's assistant treasurer, and Jay Emmett, a top assistant to Warner boss Steven J. Ross. Both were accused of accepting a \$50,000 bribe from the theatre's management, hoping to influence Warner Communications to buy Westchester stock. After the alleged bribe was made, Warner bought 20,000 shares at five dollars per share.

Fratianno, who later turned state's evidence, explained that after Sinatra agreed to perform at the theatre, the management thought, "Two days, four performances, with about two hundred unrecorded seats at fifty dollars a seat: that was \$10,000. A thousand scalped tickets, the best seats in the house, going anywhere from fifty to a hundred dollars above cost. That was about \$75,000. All the other stuff, the programs, the T-shirts, at least \$3,000 per performance. Multiply everything by four and you got \$400,000, split three ways: one third to DePalma for the theatre, one third to Louie Dome [Pacella], one third to [Fratianno]. Louie Dome was included for insurance, to make sure Sinatra fulfilled his obligation. Besides, Louie was Frank's good friend, which automatically earned him a cut."

In 1976, for the first time in its history, MCA grossed \$100 million in a single year, a forty-percent increase over the previous year. The following year, Universal-TV started making moves to become a fourth network in a project called Operation Prime Time. An effort to sell

first-run movies to independent stations throughout the United States with world-wide syndication potential—thus bypassing CBS, ABC, and NBC-Prime Time also involved Paramount Pictures, which was also MCA's partner in the CIC overseas distribution venture. Initiating the project with a drama based on Taylor Caldwell's best-selling novel Testimony of Two Men, MCA-Paramount hoped to offer one night a week of quality programming to these independent stations.

After an unsuccessful attempt to buy Sea World in 1976, MCA's attempts to diversify continued.\* MCA made a \$140 million offer to purchase the Coca-Cola Bottling Company of Los Angeles; Wasserman personally called Coke's chairman, Arthur D. MacDonald, to inform him of the takeover bid. Upset with the offer, which they considered too low. Coke and MacDonald battled MCA in the courts and in the press while looking for a better bid. They found it when Northwest Industries topped MCA by \$60 million. For its \$200 million investment. Northwest later sold the Los Angeles Coca-Cola franchise for \$600 million.

Simultaneously, MCA's problems with Disco-Vision continued. A federal court in Los Angeles heard testimony on MCA's copyright suit against Sony, which MCA was expected to lose. Meantime, MCA-Philips and Pioneer Electronics, a Japanese corporation, formed an equal alliance to distribute video-disc players all over the world, aiming first at industrial applications.

The Antitrust Division was still in pursuit, claiming that "MCA and RCA had tied up programming for video discs to such an extent that it was very unlikely that video-disc hardware other than theirs will be able to enter the consumer market. . . . [F]or any video-disc hardware to succeed in the consumer market it has to have programming available. No one will buy a video-disc player without some assurance that programming on compatible discs will be available. By controlling the programming a firm could control the hardware that comes on the market."2

In 1978, Jules Stein, who had become "the grand old man of Hollywood," was honored by the Motion Picture Pioneers, a philanthropic Hollywood group established to help needy people in the film industry. The dinner for Stein was held at New York's Waldorf-Astoria Hotel,

<sup>\*</sup>MCA also became involved in the publishing industry, buying G. P. Putnam's Sons of New York, which owned Coward, McCann & Geohagan and Berkley Books, a paperback company. In 1978, MCA purchased New Times, a newsmagazine featuring investigative reporting, but allowed it to fold within a few months.

where Stein used to book big bands. Jack Valenti made the introductions; Danny Thomas was the master of ceremonies; Health, Education, and Welfare Secretary Joseph Califano was the keynote speaker; and Diana Ross sang "Reach Out."

"I'm here only by chance," a beaming Stein told his crowd of admirers. "If Johns Hopkins had accepted my application... but I lacked eighteen hours of work in organic chemistry and they said come back next year. I was in a hurry so I applied to the University of Chicago and it was while I was working my way through medical school that I started my second career—booking bands. If it were not for those eighteen hours in chemistry I might be an unknown eye doctor in the Midwest still saying do you see better this way... or this way."

Meanwhile Wasserman and MCA filed suit against *Playboy* publisher Hugh Hefner because "videotapes of Universal motion pictures contained in *Playboy*'s private film library constituted copyright infringement." MCA feared that Hefner's ownership of the films might establish a dangerous precedent, influencing *Playboy* readers, in MCA's opinion, to violate copyright laws as well.

Hefner was convinced that there had been a misunderstanding and tried to talk to Wasserman, who was still sensitive about the fate of Disco-Vision and combative about MCA's copyright lawsuit against Sony. Consequently, Wasserman refused to speak with him. According to court documents, Hefner contacted and hired "Sidney Korshak, an Illinois attorney with influence in the Hollywood, California, community, as an intermediary to deal with Korshak's friend, Lew Wasserman. . . . Hefner paid Korshak \$50,000 [by check, dated March 16, 1978], seemingly simply for the purpose of having Korshak explain Hefner's position to Wasserman and to arrange a meeting with Wasserman, not Universal's attorneys, to discuss a possible settlement of the lawsuit."

Korshak failed to arrange the meeting with Wasserman or to soften his position against *Playboy* but kept the \$50,000 for trying. In the end, Hefner was forced to relent and surrender the Universal films in his personal library.

The following month, Korshak was in attendance at a political fundraiser for incumbent California governor Jerry Brown, who was being challenged in the Democratic primary. The party was held at Lew Wasserman's home in Beverly Hills. "We called Lew in the primary," said a Brown campaign staffer, "and we asked him to host a dinner that could bring \$50,000. Well, sure enough, by the time we collected all the money it came to \$50,000—almost to the penny."

Brown said that it did not bother him that Korshak-who had reportedly given Brown a \$1,000 contribution in 1974—was present. Wasserman-who chaired the Brown campaign's executive committee -personally gave \$10,000 to the cause; there is no known record of a Korshak contribution in 1978.

Days later, California attorney general Evelle J. Younger, the Republican candidate for governor, released an eighty-eight-page report on the status of organized crime in the state, which had heavily contributed to the \$6.8-billion-a-year California crime industry. Included was a list of ninety-two known organized crime figures operating in the state. Among the names listed was that of Korshak, who was described as "a senior adviser to organized crime groups in California, Chicago, Las Vegas, and New York."7

Edwin Meese, Governor Reagan's former executive assistant and vice-chairman of the eight-member commission that published the report, told reporters, "It's true that most of the information was in the hands of law enforcement prior to our hearings but now it is all pulled together in one place for everyone to see."

In a rare interview, Korshak told Los Angeles Herald Examiner reporter Mike Qualls, "He [Younger] can put up or shut up. . . . I've never been cited, let alone indicted, for anything. I've never been called before any bar association. As far as I know there's never been a complaint against me of any kind." Korshak added that he had contributed \$3,000 to Younger's 1970 and 1971 campaigns for attorney general and had been asked to serve on Younger's campaign committee for his gubernatorial bid. "The damage this has caused me is irreparable," Korshak said, "because what can I do to combat it?"8

In the midst of charges that he had used the organized crime report as a publicity stunt for his campaign, Younger claimed that he had returned Korshak's contributions and had instructed his staff not to accept any money from him.

Korshak nearly became as central a campaign issue in the California race for governor as Proposition Thirteen, a state referendum for property-tax cutbacks, because both candidates had links to him. While the Republicans charged Brown with accepting \$50,000 in contributions during his 1974 campaign from the Culinary Workers Union, in which Korshak exercised enormous power, the Democrats charged that Younger had met with organized crime figure Moe Morton-with whom Korshak was in business-while Younger was the Los Angeles district attorney in 1970. Morton had built a condominium unit in Mexico in 1967, called Acapulco Towers, known as a meeting place for

top underworld figures. Involved in the Acapulco Towers project were Korshak, Meyer Lansky, Delbert Coleman, Beverly Hills attorneys and long-time Korshak associates Greg Bautzer and Eugene Wyman, Philip Levin of Gulf & Western-Paramount, and Eugene Klein, the owner of the San Diego Chargers professional football team.\*

A Los Angeles superior court judge had been forced to disqualify himself from a trial in which Moe Morton was involved after it was learned that the judge had met Morton while on vacation in Acapulco. The judge later said that he had been introduced to Morton by Younger—who could not recall knowing Morton. "I can't deny it," Younger told the press, "but I don't know that I ever met him [Morton]."

MCA stayed out of the fray but contributed \$2,500 to both candidates. Brown was reelected, but his lieutenant governor was Republican Mike Curb, the former president of MGM Records and owner of Warner-Curb Records. Within four months of his election, Curb signed with MCA to create an MCA-Curb label.

On the national political scene, Wasserman remained inactive but accepted an invitation to the White House for a luncheon with President Jimmy Carter. Although the event was not a fund-raiser, Wasserman contributed \$100,000 to the Democratic National Committee to offset a long-term debt incurred by the party during the 1968 presidential campaign.

Later, an unidentified informant complained that Carter had solicited Wasserman's \$100,000 contribution to the committee. If true, the alleged solicitation was a violation of post-Watergate campaign financing laws. The Justice Department opened an inquiry. In early February 1979, Attorney General Griffin Bell announced that the investigation—which could have led to a broader special prosecutor's probe—had been dropped.

In December 1978, NBC News reporter Brian Ross broadcast a story that Sidney Korshak had earlier served as an arbitrator between Wasserman and producer Dino DeLaurentiis in their fight over who would produce the remake of King Kong, which was released in 1976. At the meeting, which was held at Korshak's home in Bel Air, the decision was made to allow DeLaurentiis—who paid Korshak at least \$25,000 for his help—to do the film. Pictures of Wasserman's telephone log demonstrated "frequent contact with Korshak. . . . The two men had been close for years. . . . Many people in the industry say one way to do business with Wasserman is to go to Korshak."

<sup>\*</sup>Acapulco Towers was eventually sold to the Gulf & Western Land Development Corporation in a deal engineered by Korshak and Levin.

## CHAPTER THIRTY-FOUR

IN JANUARY 1979, MCA bought ABC Records for \$30 million. The sale price reflected the extent of losses ABC had had in 1977, which was rivaled by an equally bad year in 1978. MCA Records, on the other hand, had nearly doubled its earnings in 1978 over the previous year. The top MCA performers in 1978 were Steely Dan and The Who. Olivia Newton-John's music was also selling well, but in early 1979 she left MCA. Lynyrd Skynyrd's records were big sellers—especially in the wake of a plane crash in October 1977 that killed three members of the band.

There was good news on April 9 at the Academy Awards ceremonies at the Dorothy Chandler Pavilion in Los Angeles. Universal and EMI Films shared the Best Picture Oscar for the production of *The Deer Hunter*, beating out *Coming Home* and *Midnight Express*.

As MCA-Universal announced plans for a \$27.5 million expansion of Universal City, MCA and Disney lost their lawsuit to Sony. A federal judge in Los Angeles ruled, in a landmark decision, that it was legal for videotape machine owners to copy television programs as long as they were for personal use, not for sale or for future viewings at which admission was charged. Wasserman and Sheinberg were reportedly shocked by the decision and immediately appealed.

IBM and MCA-Philips announced a joint venture to build and market video discs and video-disc players. IBM's involvement was to use its technology to place large quantities of programming on discs. Nevertheless, RCA's SelectaVision had already begun to dominate the video-disc market and was doing well against the Sony Betamax.

On March 2, Lew Wasserman threw another dinner for President Jimmy Carter and the Democratic National Committee—in the midst of a "dump Carter in 1980" campaign in Hollywood, which included such liberal Democrats as television producer Norman Lear and Joyce Ashley, the wife of Ted Ashley, the chairman of the board at Warner Brothers. The pro-Carter affair was a \$1,000-a-plate dinner and was held at the Beverly Hilton Hotel. Governor Jerry Brown accepted Wasserman's invitation to introduce Carter.

The Sidney Korshak-Governor Brown relationship was again in the California spotlight in 1979 after Korshak became involved as the principal union negotiator for the Service Employees International Union, which was in the midst of a strike against the state's horseracing tracks. However, the behind-the-scenes drama pitted Korshak against Marjorie Everett, the owner of Hollywood Park and a long-time Korshak nemesis. Korshak had formerly represented the Hollywood Park management as the chief labor relations negotiator until Everett bought the track in 1973; then he started working for the union.

Everett's father was Ben Lindheimer, the overlord of Chicago's racetracks. Korshak had been Lindheimer's personal attorney and chief negotiator for years. When Lindheimer died in 1960, his daughter assumed control of his racing empire and released Korshak.

"From his deathbed, Ben Lindheimer hired Sidney Korshak to head off a threatened strike at Washington Park [one of Lindheimer's tracks]," said one report. "That time Korshak failed, and the mutuel clerks at Washington walked out the night Lindheimer died. His daughter . . . blamed her father's death on Korshak's failure and fired him when she got control of the tracks."

In 1970, Everett was bought out by Philip Levin, a wealthy real estate investor from New Jersey. Before buying Everett's racetracks, Levin—an associate of imprisoned New Jersey mobster Angelo DeCarlo, who was later pardoned by President Nixon—attempted a 1967 takeover at MGM but failed. Levin had been the studio's largest stockholder. The following year, he took his \$22 million investment out of MGM and put it in Gulf & Western. G & W chairman Charles Bluhdorn then named Levin as president of the G & W real estate company. Among Levin's first purchases were Everett's two Chicago racetracks, which he

merged with the Madison Square Garden Corporation, another G & W subsidiary. After that, Levin reappointed Korshak as counsel.

Marjorie Everett was given a long-term contract to remain as the executive director of the tracks. But early in the contract period she was pushed out by Levin, after complaining about Levin's purchase of nine percent of Parvin-Dohrmann stock and his involvement in Acapulco Towers, two deals in which Korshak was a party.

Through a private detective, Everett discovered that Levin's real estate company—which had been renamed Transnation—had been involved in the purchase of Acapulco Towers. The subsequent federal investigation of Acapulco Towers led to the arrest of mobster Mever Lansky, who had been hiding out there, forcing him to flee to Israel. But Israel refused to provide him permanent asylum because of his criminal background, forcing him eventually to return to the United States, where he was apprehended. It was Korshak who had persuaded Levin initially to buy into Acapulco Towers as a private investor, and then Korshak advised him to buy it outright for Gulf & Western.

In 1971, Levin testified before the Illinois Liquor Control Commission about a decision he had made to contribute \$100,000 to some Republican candidates for office, based on advice he received from Korshak about who should receive the money and how it should be delivered. Levin wrote nine checks, totalling \$100,000, taking the money from several of his companies, such as Western Concessions, the Arlington Park Jockey Club, and the Washington Park Jockey Club, among others.2

Levin died later that year but not before Korshak personally engineered a \$16 million loan for Levin from the Teamsters Central States Pension Fund for a Transnation construction project—which was also owned by G & W's Madison Square Garden Corporation-near O'Hare International Airport in Chicago. "Gulf & Western officials acknowledged . . . ," it was reported, "that Korshak had received a \$150,000 finder's fee from Transnation for arranging the pension fund loan. But that fee, the Gulf & Western officials said, was apparently not recorded by Transnation."3

While the May 1979 strike negotiations between the service workers' union and California's racetrack management continued, Korshak, in a rare loss of cool, threatened to shut the track down. But after other unions crossed the Korshak-inspired picket line, Hollywood Park remained opened. Interestingly, at the time of the strike, Everett and Hollywood Park were in the midst of discussions for a possible takeover of the racetrack by Madison Square Garden Corporation,

which was then being run by former MCA executive Sonny Werblin. Suddenly, seemingly out of nowhere, Governor Jerry Brown stepped in and tried to shut Hollywood Park down, claiming that it posed a safety hazard. The California racing board, which heard the request, turned the governor down, even after its chairman received several telephone calls from Brown.

"I think he [Brown] was under tremendous pressure from Sidney Korshak as to the conduct of it," Marjorie Everett told NBC reporter Brian Ross.

"Governor Brown was under pressure?"

"Yes," she replied, "possibly disturbed but under tremendous pressure."

"Do you see the hand of Sidney Korshak in all of this . . . ?"

"Not only do I see the hand, I see the total image of Sidney Korshak."

Charles Chatfield, the chairman of the California Horse Racing Board, told Ross, "We heard from both sides that Mr. Korshak was involved.... [H]e was the man behind the scenes directing the negotiations."

The strike ended soon after Korshak took himself out of the negotiations.

That same month, Korshak was a topic of discussion among Teamsters insurance man Allen Dorfman, Mafia capo Joseph Lombardo, syndicate executioner Tony Spilotro, and two other associates; the exchange was secretly taped by the FBI. Dorfman was discussing the problems they were having with West Coast Teamsters leader Andy Anderson.\* "You know, an' he's as absolutely an eighteen-carat cunt, but he belongs lock, stock, and barrel to Sidney."

"All right," Lombardo replied.

"That I can tell ya."

"How old is Sidney?"

"Ah, Sidney is 70. . . ."

"Sidney Korshak. Well, if Sidney dies, who's got Andy Anderson? Nobody?"

"Nobody," Dorfman replied. "Nobody. He belongs to him lock, stock, and barrel."6

Perhaps the worst humiliation for Korshak and Governor Brown came in mid-July when cartoonist Garry Trudeau did a satirical series on their association in his *Doonesbury* comic strip. Several California

<sup>\*</sup>Andy Anderson was also the president of Teamsters Local 986, Los Angeles's largest Teamsters local, which is heavily involved in the entertainment industry.

newspapers, including The Los Angeles Times, refused to run Trudeau's work because they thought its contents were "unsubstantiated and possibly defamatory." Also referred to in the series was Lew Wasserman. In one of the strips, the Brown character said, "Okav. so I may have run into him [Korshak] a few times at Lew Wasserman's parties. ... Lew Wasserman. He's a movie mogul. He has to deal with Korshak to get his movies made."7

Brown, who was actively challenging Jimmy Carter's reelection bid for president, shrugged the whole matter off, saying that he was "flattered" by Trudeau's attention, even though the series was "false and libelous." Unfortunately, Korshak's and Wasserman's reactions were not recorded.

In late July, Korshak associate Delbert Coleman and casino manager Ed Torres bid \$105 million for the Aladdin hotel/casino in Las Vegas. Both had earlier been investigated by the SEC, along with Korshak, for their roles in the Parvin-Dohrmann affair. At the time of the Coleman-Torres offer, law-enforcement officials had been threatening to shut down the Aladdin after it was proven that Detroit mobsters had taken hidden control of the casino. Simultaneously, the U.S. Strike Force Against Organized Crime began looking into allegations of hidden mob interests at the Riviera. The targets of the investigation were Korshak, Coleman, and Torres, who had run the Riviera until 1978. Federal investigators believed that the Riviera was controlled by the Chicago Mafia, with Korshak acting as its conduit. Other casinos being looked into were the Dunes, the Fremont, the Stardust, and the Tropicana.

Back in California, Korshak's old friend from Chicago, Paul Ziffren, and his brother, Lester—the founders of Ziffren and Ziffren in Beverly Hills—had a serious split with their attorney/sons, who were also working in the family business, forcing the firm to dissolve. Paul Ziffren found a new home at Gibson, Dunn and Crutcher when senior partner William French Smith, Ronald Reagan's personal attorney, invited Ziffren\* into the Los Angeles firm.

"Paul and I used to be on the political debating circuit together." Smith told The Los Angeles Times. "This goes back to the Eisenhower campaigns. We debated on radio, on TV, all around. It was during that period I developed a high respect for his talents."8

<sup>\*</sup>Simultaneously, Ziffren and travel company chairman Peter V. Ueberroth were named by the U.S. Olympic Committee as permanent chairman and president-general manager, respectively, of the Los Angeles Olympic Organizing Committee for the 1984 Olympic Games.

# CHAPTER THIRTY-FIVE

In March 1979, Nevada senator Paul Laxalt formed the Reagan for President Committee, saying that Ronald Reagan "is the man who pioneered the concept of putting responsible restraints on government—an idea whose time has come today with the public's resistance to excessive taxation, irresponsible spending, and oppressive regulation of our lives.

"We pledge our support and commit our efforts to Governor Reagan because we believe he is the most able man in America today to inspire our people, to deal with problems and not shrink before them, and to restore the United States to a respected role in the affairs of the world."

Financially, Reagan was in good shape. He was worth over \$4 million and was making nearly \$500,000 a year from his lectures, charging as much as \$10,000 per booking, and radio and newspaper commentaries. To provide additional income during the campaign, Reagan sold off nearly \$234,000 in stocks.

Jules Stein had also helped Reagan to obtain a tax shelter for his growing fortune while Reagan was still the governor of California. Stein introduced Reagan to Oppenheimer Industries, Inc., a little-known, Kansas City-based land and cattle-breeding company run by Stein's stepson, Harold L. Oppenheimer, a retired brigadier general in the

Marine Corps. The firm was owned by Stein, his wife, and his stepson. and catered to wealthy investors, like Reagan, who were seeking to shelter their money.

All Reagan had ever said about the transaction was that he had invested \$10,000 in cattle on a ranch in Montana. "I knew this guy who does this, bought a herd of bulls," he said. "What do you do with them? They're out on lease for breeding. . . . I made a little money."

But as a result of the Stein-orchestrated shelter, Reagan paid no state income tax in 1970, nor had he paid virtually any state income taxes from 1966 to 1969. This unsettling fact was not disclosed voluntarily by Reagan. Throughout the late 1960s, Reagan had repeatedly refused to make public his tax returns, insisting that it was a private matter even though he had become a public official. The closest he came to a disclosure occurred in April 1968, when he stated at a press conference, "I just mailed out my own tax return last night, and I am prepared to say 'Ouch' as loud as anyone."

However, in 1970, an inquiry by The Sacramento Bee revealed that Governor Reagan had paid an average of only \$1,000 per year in state taxes from 1966 to 1969, on annual earnings of more than \$50,000, which did not include the separate capital gains taxes paid on the earlier sale of his ranch.

The disclosure created an enormous political flap in California. When Reagan was asked about his taxes, he claimed that he could not recall how much he paid. "I don't know what my tax status was," he said at another press conference. But, confronted with the Bee report, Reagan reacted angrily, calling it an "invasion of privacy" based on information that had been "illegally" obtained. When reporters continued to press Reagan for details, an aide instead explained that "he had paid no taxes because of business reverses on his investments."\*

On November 13, 1979, at the New York Hilton Hotel—just ten days after the American hostages were taken in Iran—Reagan announced he was going to seek the Republican nomination for president. During his speech, Reagan said, "In recent months leaders in our government have told us that we the people have lost confidence in ourselves: that we must regain our spirit and our will to achieve our national goals. Well, it is true there is a lack of confidence, an unease with things the way they are.

In 1974, when Reagan was again being considered as a likely future presidential candidate, his attorney, William French Smith, was asked by reporters to provide additional data on Reagan's taxes and real estate deals, but Smith declined to cooperate. "We'll worry about that when he becomes president," Smith replied.

"But the confidence we have lost is confidence in our government's policies. Our unease can almost be called bewilderment at how our defense strength has deteriorated. . . .

"I believe this nation hungers for a spiritual revival; hungers once again to see honor placed above political expediency; to see government once again the protector of our liberties, not the distributor of gifts and privileges. Government should uphold and not undermine those institutions which are custodians of the very values upon which civilization is founded—religion, education, and, above all, the family. Government cannot be clergyman, teacher, and parent. It is our servant, beholden to us. . . .

"I believe that you and I together can keep this rendezvous with destiny."

The overall chairman of Reagan's presidential campaign was William Casey, the head of the SEC under President Nixon. An intelligence officer during World War II, Casey had been founder, general counsel, and member of the board of directors of Multiponics, an agribusiness firm. Originally called Ivanhoe Associates, Inc., the company was created for the purpose of industrializing scientific farming and owned 44,000 acres of farm land in Mississippi, Arkansas, Louisiana, and Florida. By midsummer 1970, the company had suffered huge financial losses. Doing little more than changing the company's name to Multiponics, the corporation filed for bankruptcy in February 1971—owing \$20.6 million to creditors, including Bernard Cornfeld, the head of Investors Overseas Services and an associate of international swindler Robert Vesco.\*

One of Casey's partners in Multiponics was Carl Biehl, an associate of underworld figures in the Carlos Marcello crime family in New Orleans who had been attempting to penetrate waterfront operations on the Gulf Coast. Information on Biehl was based upon federal wiretaps in Washington and New Orleans which showed that Biehl had been working with the underworld since the early 1950s.

When revelations about Biehl and other Multiponics improprieties surfaced, Casey claimed that his relationship with the firm was from a distance. However, during the Multiponics bankruptcy hearing in New Orleans on September 15, 1975, Casey testified, "I think the record will

<sup>\*</sup>During his tenure at the SEC, Casey had discussed a commission suit against Vesco with former attorney general John Mitchell, who was concerned about the political embarrassment of a \$200,000 cash contribution Vesco had made to Nixon's reelection campaign. Casey made this admission during his testimony at Mitchell's Watergate trial.

show that I had a great deal to say and a fair amount of influence in the basic decisions that the directors made."1

Repeatedly accused of having questionable business ethics, Casev was particularly attacked by Senator William Proxmire in 1971. "Mr. Casey." Proxmire charged, "has cut corners when he considered it to be necessary to business profit. He has wheeled and dealed his way into a personal fortune, sometimes at the expense of his clients. . . . And he has made less than a complete and accurate disclosure of his activities to Congress."

In another case, Casey had represented SCA Services, a New Jerseybased waste disposal concern, in 1977 in an unsuccessful effort to head off an SEC action against SCA and some of its top officers. Although SEC attorneys proceeded with the complaint—which alleged the diversion of some \$4 million in company funds for personal use by its officials -Casev negotiated a settlement of the case in which SCA neither admitted nor denied the charges.

Later, a government informant told congressional investigators that SCA had "been involved with organized crime in the garbage business and now they're moving into hazardous waste." New Jersey State Police intelligence had identified at least three recent SCA employees as having "strong, deep-rooted connections to organized crime." Thomas C. Viola, the president of SCA, had been forced out of the company by the SEC because of his own links to the underworld. Crescent Roselle, the manager of Waste Disposal, Inc.—which was taken over by SCA in 1973—had been personally involved with numerous Mafia figures and was later found murdered.2

Casey's assistant during the Reagan campaign was Max Hugel, an executive vice-president of the Centronics Data Computer Corporation of Hudson, New Hampshire. A portion of Centronics was owned until 1974 by Caesar's World, the casino gambling company, then under federal investigation for alleged hidden mob ownership, when Hugel's previous firm, Brother International Corporation, bought Caesar's World's holdings in Centronics. Also Centronics had had a consultancy relationship with mobster Moe Dalitz and his Las Vegas casinos. Hugel had also been involved in a pattern of improper or illegal stock market practices intended to boost the stock of the New York wholesale firm he had headed in the mid-1970s. He was alleged to have threatened to kill a former business associate and told another that he might be found "hanging by the balls."

Hugel, who said that he had known Casey for twenty years, was in

charge of organizing "ethnic, nationalities, occupational, religious, and other voting groups" for Reagan.

Reagan's principal competition during the Republican caucuses and primaries in 1980 was former CIA director George Bush. Although Bush spent over a month in Iowa, campaigning for the state caucuses, he edged Reagan by a mere 2.1 percentage points. Reagan had spent less than forty-eight hours there, concentrating on the New Hampshire primary instead—where he soundly defeated Bush by a two-to-one margin. Reagan continued to clean up in the primaries. By the time of the Republican National Convention, Reagan knew that he had the nomination in hand. The only mystery was the person whom Reagan would select as his running mate.

One of the names on the short list of politicians being considered was Paul Laxalt. The public explanation of why Laxalt was not chosen was that he, like Reagan, came from the West and, on top of that, Nevada was an electorally insignificant state, ranking forty-third in population and with only four electoral votes.

However, Reagan aide Jude Wanniski told a different story. "I was sitting having a beer at the Pontchartrain Hotel in Detroit [during the 1980 Republican convention]," Wanniski said, "and Chic Hecht, who is now the junior senator from Nevada but was then just a delegate, said, 'My God, I just heard from somebody sitting next to me that Paul Laxalt was about to be indicted by a federal grand jury.' And I said, 'Aw, come on, Chic, that's going on here because Reagan is picking his running mate.'"

Wanniski explained that "during the two or three super-heated days of the convention . . . the various candidates, who were trying to be running mates, were spreading rumors about each other. And Laxalt was easy to slam because he's from Nevada. No presidential nominee has ever picked a Nevada person because of the baggage you acquire when you pick one. Everyone in the whole world, the whole press corps, will swarm all over Nevada, writing about the Mafia."

Whether Reagan would have chosen Laxalt is uncertain, but such talk about mob ties surely could not have helped the senator's chances. Laxalt was not in attendance at the Republican convention when George Bush was selected as Reagan's vice-presidential candidate. But even if the national GOP high command was unwilling to accept a divorced, former casino operator from Nevada as Reagan's running mate, the citizens of Nevada saw no problem with Laxalt's background.

Laxalt's 1980 campaign against Mary Gojack, a Las Vegas business-

woman whom he defeated handily with fifty-nine percent of the vote. was nothing less than a Laxalt love feast. The disappointed Gojack said, "The campaign against Paul involved a package of criticism that included taking big casino contributions and the fact that he had missed about a year's worth of votes—because he had been working on Reagan's campaign and at the same time was one of the highest earners on the speaking circuit. The gist of all of that was that he had really neglected the majority of Nevadans. There was an over-representation on his part of special casino interests here in Nevada.

"The only people who really cared when I raised these issues were a minority of intellectuals and more thoughtful newspaper editors. Most people in Nevada think that Paul is a nice guy, that he couldn't do anything wrong, and that outsiders are constantly trying to pick on him."5

Laxalt was easily returned to Washington in 1980 by the people of Nevada, who had agreed with his campaign slogan, "He's one of us." During the campaign, Laxalt raised a total of \$1,126,826, outspending Gojack by nearly four to one. In addition to the tens of thousands contributed by legal casino operators, known associates of organized crime contributed nearly \$50,000 to Laxalt's two senatorial campaigns. The most controversial of these were two separate \$1,000 contributions from reputed mobster Moe Dalitz, according to Laxalt's own campaign records filed with the Federal Elections Commission.

Laxalt apparently gave no thought to returning any of these questionable contributions—as did some politicians like Texas wheelerdealer John Connally, in his unsuccessful bid for the 1980 Republican presidential nomination. Connally received a \$1,000 contribution from Dalitz, but returned it, "for reasons I'm sure can be understood," a Connally spokesman said.6

"Moe Dalitz is a friend of mine," Laxalt told The New York Times Magazine. "I'm not going to say to him now, 'Get lost, you're too hot.' I don't play it that way."

On August 27, 1980, Reagan kicked off his fall campaign by delivering a speech in Columbus, Ohio, before the Ohio Conference of Teamsters, which was run by Jackie Presser, an international vice-president of the union and the head of the Ohio Conference. Before his address, Reagan met in private for forty-five minutes with Presser and Roy Williams, another Teamsters vice-president.

That same morning, the wire services, newspapers, radio, and tel-

evision carried stories about Williams's testimony before a Senate subcommittee the previous day, reporting that he had taken the Fifth Amendment twenty-three times when asked about his personal and financial dealings with top organized crime figures. Among the mobsters with whom Williams had been associated was New Orleans underworld boss Carlos Marcello, who had recently boasted, "We own the Teamsters," according to a tape recording made in the course of the FBI's BRILAB (bribery and labor racketeering) investigation.

Williams had been twice indicted for embezzlement of union funds. He was acquitted in the first trial after a key witness was found shot-gunned to death; the second indictment in 1972 was dismissed by a federal judge who cited "procedural errors" during the investigation. In early 1974—in the midst of the sweetheart arrangement between the Teamsters and the Nixon White House—Williams was indicted for falsifying union records. But that charge, too, was aborted by the government.

Just a few weeks before Williams's testimony, a former Mafia figure turned government witness, Jimmy Fratianno of Los Angeles, stated before a federal grand jury that Presser had told him that he took his orders from James Licavoli, the boss of the Cleveland underworld. Presser, who started out as an organizer for the Culinary Workers Union, was the son of convicted labor racketeer William Presser—who was a close associate of Moe Dalitz, Allen Dorfman, and Sidney Korshak, all of whom Jackie Presser was now associated with.

Soon after Reagan's meeting with Presser and Williams, the Teamsters Union announced their support of Reagan's candidacy for president—after Presser delivered a passionate speech on Reagan's behalf before the union's general executive board. The Teamsters were the only major union to endorse Reagan.\*

On Labor Day 1980, Reagan delivered another speech in Jersey City, New Jersey. Dressed in white shirtsleeves and with the Statue of Liberty casting a dramatic background, Reagan accused Carter of "betraying" American workers. "A recession is when your neighbor loses his job," Reagan said. "A depression is when you lose yours. Recovery is when Jimmy Carter loses his."

The Jersey City extravaganza was engineered by Raymond J. Donovan, the executive vice-president of the Schiavone Construction Company of Secaucus, New Jersey, who had been brought into the Reagan

<sup>\*</sup>The Maritime Workers Union and the Air Traffic Controllers were two smaller unions endorsing Reagan for president.

campaign by Reagan's attorney, William French Smith. Donovan had also raised \$200,000 at a dinner for Reagan. The featured entertainer at Donovan's dinner was Frank Sinatra. Through all of his fund-raising efforts, Donovan made \$600,000 for the Reagan campaign.

The Carter reelection campaign was having its troubles. A Carter administration official told reporter Elizabeth Drew, "The fund-raising structure is not unlike the Mafia. If you want to do business in that area, there is one person you have to deal with [Lew Wasserman]." According to Drew's source, Wasserman "put Carter in a box. . . . If Wasserman doesn't return your phone calls, you can't do business in Los Angeles. Wasserman will put you through Chinese water torture before he'll raise money for you, and he won't let anyone else do it." Also, it had been reported that Carter had had a falling out with Wasserman, who many suspected was really supporting Reagan.

Following his stunning victory, Reagan made his first trip to Washington on November 18. His first official stop—accompanied by Vice-President-elect George Bush-was at the headquarters of the International Brotherhood of Teamsters, where he attended a closed meeting of the union's executive board, which included the president, Frank Fitzsimmons, and vice-presidents Andy Anderson, Jackie Presser, and Roy Williams. According to reports of the meeting, Reagan invited the Teamsters high command to help him select his secretary of labor and other top administration officials.

A few weeks later, Reagan and Edwin Meese, the chief of the president-elect's staff, appointed Presser as a "senior economic adviser" to the transition team. An eighth-grade dropout who was then making over \$350,000 a year as a union official, Presser boasted that he would screen potential appointees to "the Labor Department, Treasury, and a few other independent agencies." Those departments would have jurisdiction in any future investigations of the Teamsters Union.

Senator Sam Nunn of Georgia warned that the Presser appointment raised "serious questions of conflict of interest." He added, "The appointment of Mr. Presser . . . raises several significant questions which should be addressed at the highest levels of the incoming administration. . . . Is it a violation of fundamental principles of government ethics for Mr. Presser to help organize the very department that has brought suit against him?"

At the time, Presser and other former trustees of the union's Central States Pension Fund were targets of several civil suits brought by the Labor Department, seeking reimbursement to the fund of \$120 million

in illegal loans made to Las Vegas casinos and to organized crime figures and their associates. The trustees had been forced to resign in 1976 because of those loans.

Not long before Presser's appointment to the Reagan team, New Jersey State Police officers testified before the state's Commission of Investigations that Presser—who at that point had never been indicted, despite dozens of allegations of wrongdoing—was a contact for underworld bosses seeking loans from the union's pension funds.

When asked at a press conference about accusations that Presser had ties to organized crime, President-elect Reagan replied that he had not been informed of any such charges. "If that's true," he said, "that will be investigated and brought out." Later, Meese contradicted his boss, saying that Presser had been investigated prior to his appointment but that the charges of mob connections had been found to be "mostly innuendo."

While the controversy over Presser continued, Reagan nominated Ray Donovan as secretary of labor. According to a report in *The New York Times*, Meese was told by Presser in December 1980 that the Teamsters did not support Donovan and wanted Betty Murphy, a former chairwoman of the National Labor Relations Board, instead. After Meese conveyed that news to his boss, *The Times* reported, Reagan called Teamsters president Frank Fitzsimmons for verification. When the ailing Fitzsimmons said that Murphy was indeed the union's choice, Reagan decided to withdraw Donovan's nomination. No formal announcement was ever made, however, and Donovan's name went to the U.S. Senate for confirmation.<sup>8</sup>

What happened? According to a top Teamsters official, the union's support of Murphy was a charade, and *The Times* story the result of a deliberate leak. "After the Presser thing with the transition team," he explained, "there was a need to show that Reagan wasn't just rolling over for us. . . . Donovan was our man all the way. Betty Murphy was just the smokescreen."

Given Donovan's past dealings with the Teamsters, their support of him was no surprise. During his confirmation hearings, Donovan was accused of having made payoffs to a New York Teamsters official on behalf of his construction company. He was also accused of associating with top Teamsters racketeers like Salvatore Briguglio of Teamsters Local 560 in Union City, New Jersey. Briguglio—who, according to the government, was the killer of Jimmy Hoffa in 1975—had been murdered in 1978. Donovan was also charged with associating with William Masselli, a top Mafia leader in New York.

An FBI memorandum detailing Donovan's associations with organized crime figures and Teamsters toughs was hand-delivered to Reagan's transition team the day before Donovan's confirmation hearings began. It was addressed to Fred Fielding, Reagan's conflicts-of-interest adviser. The memorandum said that numerous charges against Donovan had been "corroborated by independent interviews of confidential sources." Also, Fielding was notified of a tape recording linking Donovan to organized crime figures. The FBI asked Fielding, "Do you want us to do any more?" Fielding said, "Not at this time."9

The information on Donovan's ties to the underworld was then concealed from the Senate panel investigating Donovan.

Other Reagan appointments included William French Smith as attorney general and William Casey as director of the Central Intelligence Agency. Casey later appointed his assistant during the presidential campaign, Max Hugel, as his deputy director of operations, which conducted sensitive covert actions and clandestine intelligence-gathering abroad.

Reagan also announced that he was going to appoint William E. McCann, a New Jersey insurance executive and a friend of Casey's, to become the ambassador to Ireland. The McCann confirmation hearings were held up because of the discovery of McCann's ties to organized crime, which eventually forced the White House to reluctantly withdraw the nomination. Specifically, McCann—who had co-chaired the \$200,000 Reagan fund-raiser with Ray Donovan during the presidential campaign—had been an associate of convicted stock fraud and insurance swindler Louis Ostrer, who had been indicted with mob bosses Santos Trafficante of Miami and Tony Accardo of Chicago for bilking the health and welfare fund of the Laborers Union. McCann's firm, Foundation Life Insurance Company, was also being investigated by the New York State Insurance Commission for selling insurance without a license to Teamsters Local 295 in New York City.

Senator Paul Laxalt also had some of his people appointed to top administration posts. One was Reese Taylor, Jr., who was appointed chairman of the Interstate Commerce Commission. Common Cause, the citizens' lobbying group, charged that Taylor had been handpicked for the job by the Teamsters Union because of his opposition to the proposed deregulation of the trucking industry, which would hurt the organizing abilities of the Teamsters. A former law partner of both William French Smith and Paul Laxalt at different periods during his legal career, Taylor was helped in his successful confirmation bid by Nevada senator Howard Cannon—who was the earlier target of Teamsters bribe offers from Roy Williams and Allen Dorfman for his assistance in blocking total deregulation. Cannon's watered-down version did finally pass. Williams, Dorfman, and Chicago Mafia figure Joseph Lombardo were later indicted for their attempts to bribe Cannon, who was not indicted.

Another appointment brought about by Laxalt was that of James Watt as the secretary of the interior. Watt was the head of a "public interest" law firm, the Mountain States Legal Foundation. An antienvironmentalist group, Mountain States received major financial contributions from such Nevada gambling interests as Harrah's, Inc.; Bally Distributing Company; Harvey's Wagon Wheel; the Sahara Nevada Corporation; and the Union Plaza hotel/casino. Three of the lawyers in Watt's firm represented the Riviera; the Dunes hotel/casinos; the Horseshoe club/casino; the Pioneer Club; the Summa Corporation; Del E. Webb; Caesar's World; Circus-Circus; and Slots-a-Fun, Inc. Several of these businesses were connected to organized crime.

Perhaps the biggest party for Ronald Reagan's victory before his inaugural was held on December 12, 1980. The place was Rancho Mirage near Palm Springs, California, at the desert home of Frank Sinatra. The official occasion was Sinatra's sixty-fifth-birthday celebration. In attendance were two hundred guests, who included Walter Annenberg,\* other members of Reagan's Kitchen Cabinet, and an array of Hollywood luminaries. Although the Reagans had been invited but could not attend, the president-elect's attorney general—designate, William French Smith, did attend. Smith—who had been named as attorney general the day before the affair—had known Sinatra since 1970 after being introduced to him by Reagan Kitchen Cabinet member Holmes Tuttle.

At the time of the party, Sinatra was still being investigated by a federal grand jury in New York which was trying to determine whether Sinatra was involved in the skimming operation at the Westchester Premier Theater during his appearances there in April and September 1976 and in May 1977. By the end of 1980, eight people had been convicted for their involvement in the Westchester scheme. Sinatra himself was not indicted.

Later Sinatra renewed his efforts to regain his gambling license from the Nevada Gaming Commission. He was hoping to "participate in

<sup>\*</sup>Walter Annenberg's wife, Leonore Annenberg, was later appointed as chief of protocol at the Reagan White House. Mrs. Annenberg had been previously married to Beldon Katleman, the owner of El Rancho Vegas, and former bootlegger Lewis Rosentiel, the head of Schenley Industries. She and her third husband, Walter Annenberg—the owner of the Daily Racing Form. Seventeen, and TV Guide—were close friends of the Korshaks'.

management" of Caesar's World, Inc., in Las Vegas. Previously, the New Jersey Casino Control Board had rejected Caesar's admission into Atlantic City because its president was known to be associated with top organized crime figures. As a reference for his application in Nevada. Sinatra—who was organizing the entertainment for the new president's inaugural gala—used Reagan's name.

Later, in his glowing letter of recommendation on Sinatra's behalf addressed to the Nevada Gaming Commission, Reagan described his friend as "an honorable person, completely honest and loyal." When asked by a reporter about Sinatra's ties to the underworld, Reagan simply replied, "Yeah, I know. We've heard those things about Frank for years, and we just hope none of them are true." Sinatra\* was granted his "key employee" license by the gaming commission.

Smith had the same reaction when the press questioned his judgment in attending the Sinatra party, adding that he was "totally unaware" of Sinatra's associations to the underworld. New York Times columnist William Safire chided Smith, writing, "[T]he involvement of the designee for attorney general in the rehabilitation of the reputation of a man obviously proud to be close to notorious hoodlums is the first deliberate affront to propriety of the Reagan administration."

Despite the uproar over Smith's association with Sinatra, Safire and the rest of the media—with the exception of Washington Post columnist Maxine Cheshire—missed the fact that a jubilant Sidney Korshak was also present at the party. A Smith aide said that if his boss talked to Korshak, "it was purely accidental."10

<sup>\*</sup>Reagan later awarded Sinatra and Walter Annenberg with Presidential Medals of Freedom and appointed Sinatra to serve on the sixteen-member President's Commission on Arts and Humanities. Of Sinatra, Reagan said, "His love of country, his generosity for those less fortunate, his distinctive art . . . and his winning and compassionate persona make him one of our most remarkable and distinguished Americans . . . and one who truly did it his way.'

## <u>EPILOGUE</u>

## LEW WASSERMAN

"Hollywood" is no longer in Hollywood. Few movies are now made there; few stars live in Hollywood Hills. The corner of Hollywood and Vine is just another rundown commercial area. There is little magic in the air, and the local glitter is mostly supplied by the motorcycles that line Hollywood Boulevard and the punk rockers who hang out in front of cheap T-shirt shops. With the exception of Paramount, most of the big movie and television studios—including Universal, Columbia, Warner Brothers, NBC, and Disney Studios—have moved from Hollywood to the San Fernando Valley, where, just on the edge of the valley, the MCA Black Tower remains the symbol of the awesome strength and power of the new Hollywood.

MCA's lobby is unglamorous, cold, and sparse. A uniformed guard, sitting at a large desk, is responsible for checking visitors in and out of the building and generally keeping the peace. To his right is a bronze bust of Jules Stein and beyond that several elevators. On the top floor, where the MCA high command works, "corridors have disappeared or widened into lushly carpeted indoor avenues, deep and soft enough to turn an ankle, so hushed that no one would hear [a] scream," wrote

author Saul David. "The furnishings here are European antiques of immense value and astonishing discomfort. Everything is the wrong height—the great desks and ornate tables meant to serve people who either stood or perched on stools. There are wonderful cranky cabinets with doors, tall chests and short chests and doubled chests with twinkling rows of little drawers and pigeonholes. . . . Wasserman's office was large but not especially ornate—tending to the austere in shades of gray, black, and white, like Wasserman himself."

Toward the end of the Carter administration, MCA and Lew Wasserman were seething after its new cable television network, named Premier—a consortium of Hollywood studios, including MCA-Universal, Twentieth Century-Fox, Columbia Pictures, and Paramount—was closed down, after an injunction was filed against it by the Carter Justice Department, less than four months after the joint venture was announced. With MCA still haunted by its nemeses, Antitrust Division attorneys charged that the project was "anticompetitive" and that it would be engaging in price-fixing and group boycotting. Premier had promised subscribers that it would offer motion pictures from its participating studios at least nine months before the same films would be offered to Home Box Office, Inc., or Showtime Entertainment—which were taking in twenty to thirty percent of the pay-TV subscription fees for distribution while the studios were getting only about twenty percent versus the forty-five percent they received from the box office. The studios stood to make an additional \$450 million a year in the long term had Premier gone into operation. Those companies involved in Premier lost over \$20 million as a result of the antitrust action while profits in cable television had jumped from \$192 million in 1978 to \$400 million in 1979.

More bad news came for MCA in mid-1980, when the Screen Actors Guild struck against the film industry over demands for actors' participation in revenues from cable television. The thirteen-week strike caused MCA-Universal's lucrative television programs to be postponed or cancelled. MCA lost millions of dollars in television revenues as a consequence of the strike. However, a Directors Guild of America strike was averted when Wasserman was called in by both the directors and the producers to mediate a settlement.\*

Soon after becoming president, Ronald Reagan began moving toward deregulating the communications industry, proposing to strip the

<sup>\*</sup>In 1981, Wasserman also intervened in the midst of a thirteen-week strike of the Writers Guild (formerly the Screen Writers Guild) and managed to negotiate a settlement between the screen-writers and the producers.

Federal Communications Commission of much of its authority. "Under Reagan era 'deregulation' of radio and television," wrote author Ronnie Dugger, "existing stations are to be protected from challenge by new competitors, and people are going to have to watch more and more commercials as the price for seeing and hearing the programs they like. [Mark Fowler,] Reagan's chairman of the Federal Communications Commission (FCC), is proposing to give present TV station owners permanent title to their licensed access to the publicly owned airways, immune from competitive challenge, and to remove limits on how many radio and TV stations one company can own. On the other hand, the Reaganized FCC is opening some new communications technologies [like cable television] to free competition."

That same year, MCA, Paramount, and Time, Inc., bought a one-third interest in the USA Network, another part of the cable-TV broadcasting system. And later, MCA-Universal negotiated a deal with HBO, whereby HBO was required by contract to buy all of Universal's motion pictures.\* There were no antitrust problems, and, under Reagan, none were anticipated.

Deeply affected by the antitrust problems experienced by MCA and General Electric, Reagan told Business Week in 1980, "We don't want to give up our protection against monopoly at home, but why can't we make it possible for American concerns to compete on the world market and not have it called collusion or restraint of trade?" Attorney General William French Smith chimed in, "Bigness in business does not necessarily mean badness. . . . The disappearance of some should not be taken as indisputable proof that something is amiss in an industry." To further the cause, one of the most outspoken critics of U.S. antitrust laws, William Baxter, a former law professor at Stanford, was appointed as head of the Justice Department's Antitrust Division. With the signals clear and a new Republican majority in the U.S. Senate, Republican senator Strom Thurmond, the new chairman of the Senate Judiciary Committee, completely abolished its once-effective antitrust subcommittee.

The Reagan Justice Department also began considering challenging the 1948 Supreme Court "divorcement" decision in the Paramount case, which forced the studios to divorce themselves of their theatre chains. Upon hearing the news, studio heads in Hollywood were described in published reports as being "enthusiastic." Baxter, who spearheaded the campaign, said that the review of the decisions made by the

<sup>\*</sup>In March 1984, MCA negotiated six-year, nonexclusive contracts with HBO/Cinemax and Showtime-The Movie Channel.

Supreme Court against the major film companies had resulted from "the age, significance, and complexity of those judgments, their apparent success in destroying the cartel to which they were originally addressed, and the many profound changes in the motion picture industry since the judgments were entered." Just the previous year, a federal court in New York had denied a motion to vacate the decrees against the studios.

On Tuesday, April 28, 1981, at 5:00 P.M., eighty-five-year-old Jules Stein was rushed to UCLA Medical Center—where he had given millions of dollars for the internationally renowned institute to prevent blindness that bore his name—suffering from what was thought to be a badly inflamed gall bladder. At about midnight, while receiving treatment, Stein suffered a massive heart attack and was pronounced dead at 12:20 A.M. on April 29.

Nearly six hundred people, including some of the biggest names in show business, attended a celebration of Stein's incredible life on the east patio of the Jules Stein Eye Institute on UCLA's campus. Henry Mancini and a twenty-piece band were joined by former Tommy Dorsey singer Helen O'Connell in a tribute to Stein. Among those songs played was Stein's favorite, "Alexander's Ragtime Band."

Grief-stricken, Wasserman described Stein as "a singular being," adding that Stein's death had left him "bereft... in ways that defy the power of language to express. He was my mentor, my partner, and my closest friend for more than forty-five years."

Among Stein's seventy-six honorary pallbearers were President Reagan, former American Federation of Musicians boss James Petrillo,\* producers Mervyn LeRoy and Hal Wallis, actors Jimmy Stewart and Cary Grant, and talent agent Irving "Swifty" Lazar. Stein's wife, Doris, died in April 1984.

Stein's death had come in the midst of a rare corporate crisis for MCA. During the first quarter of 1981, MCA's operating income dropped by thirty-seven percent, which followed a twenty-two-percent fall in 1980. To deal with the problem, Wasserman and Sidney Sheinberg dramatically cut Universal's film budget by thirty percent, reducing its annual movie production to only a dozen films, compared to twenty-two in 1980. Several disasters at the box office had contributed heavily to the decision. The Blues Brothers, starring Dan Aykroyd and John Belushi of NBC's Saturday Night Live, skyrocketed over budget, costing the studio over \$30 million. Dino de Laurentiis's Flash Gordon,

<sup>\*</sup>James Petrillo died on October 23, 1984.

which cost nearly \$20 million, also bit the dust soon after its release. The only bright spots were *Coal Miner's Daughter*, a film based on the life of country singer Loretta Lynn, and Steve Martin's *The Jerk*. Each had gross receipts in excess of \$30 million.

With MCA's stock dropping, there was still little concern about a hostile takeover of the corporation. Wasserman still controlled 8.1 percent of its stock and, as executor of Stein's \$150 million estate in the wake of his death, controlled the 15.8 percent owned by Stein. In view of the fact that seventy-five percent of MCA's stockholders still had to approve any takeover bid, Wasserman alone could almost singlehandedly block any unwanted takeover attempt.

MCA's problem, according to corporate analysts, was that it had failed to diversify aggressively, depending too much on its film production, which comprised 84 percent of MCA's profits in 1980. But Wasserman had already realized that and embarked MCA on massive real estate development, which would eventually be separated from MCA's other operations. First, MCA announced that it planned to build a \$175 million, 312-acre theme park in Orlando, Florida,\* near Disney World and Sea World, which would be a semi-clone of its Universal City tour.† It also planned to build the new \$100 million headquarters of Getty Oil in Universal City and a second \$65 million, 500-room Sheraton Hotel. The project was to yield MCA an additional \$15 million annually for leasing arrangements when it was completed in 1984.

The following year, in August 1982, Universal, Paramount, and Warner Brothers, Inc., nearly purchased a twenty-five-percent interest each in The Movie Channel, a cable-television company valued at \$100 million and owned by American Express and Warner Communications, which would retain the remaining twenty-five percent. Although there was hardly a threat of possible antitrust action from the Justice Department, the deal fell through when the studios failed to come to terms among themselves. "You try to get three movie companies to meet for lunch, and you're going to get arguments," said Thomas Wertheimer, an MCA vice-president.<sup>4</sup>

<sup>\*</sup>MCA later acquired a \$1.7 million option to purchase nearly eleven percent of the Major Realty Corporation, which owned over a thousand acres adjacent to MCA's proposed theme park. Federal and state law enforcement agencies had previously linked Major Realty to top organized crime figures, including Meyer Lansky.

<sup>†</sup>The MCA theme park project in Orlando suffered a severe setback in May 1985 when Disney World announced that it was planning to build its own studio tour and the Florida legislature killed a bill that would have given MCA \$175 million from the Florida Retirement System Pension Fund to help finance construction. MCA accused Disney of lobbying against the measure; Disney denied that it had.

Meantime, MCA resumed its steady growth, with nearly \$1.5 billion in assets. Universal-Television led all production companies with seven hours of prime-time programming while Universal Pictures began leasing studio space to outside producers as it raked in twenty percent of the total revenues of Hollywood's 1981 film releases. Universal's hits were The Four Seasons and Bustin' Loose, along with Endless Love, An American Werewolf in London, and The Great Muppet Caper.

To everyone's surprise, the box-office smash of the season was Universal's On Golden Pond, featuring Henry Fonda, Katharine Hepburn, and Jane Fonda. As the crowning achievement to a long and distinguished career in motion pictures, Henry Fonda won the Academy Award for Best Actor just prior to his death, although the film itself was beaten out for Best Picture by Chariots of Fire.

In February 1982, MCA announced that it was selling its Disco-Vision operations, which had cost the corporation nearly \$100 million, to Japan's Pioneer Electronics Corporation. Despite all of its research and marketing, MCA had sold only 35,000 video machines. MCA refused to disclose the purchase price, but MCA president Sidney Sheinberg permitted himself to say, "Bargain basement you don't get from MCA." The sale of Disco-Vision ended MCA's biggest corporate nightmare and the company's biggest failure. Earlier, in September 1979, MCA had formed a joint venture with International Business Machines, Inc. (IBM) to build and market video discs. The move was a break from IBM tradition, because it had thrust the company into the consumer market rather than its usual business market. The Dutchbased N. V. Philips Corporation had remained a partner in the enterprise—although MCA had complained that Philips was not producing enough machines while Philips charged that MCA was not delivering on the video discs. In the spring of 1980, MCA and IBM found themselves facing more competition when General Electric and Japan's Victor Company (JVC) introduced their own video-disc products, which were incompatible with Disco-Vision. In the end, despite its investment and because videocasette recorders, particularly the Sony Betamax, were outselling video disc machines, MCA had no choice but to sell.

Getting the Disco-Vision monkey off MCA's back was just part of the good news in 1982–83 as Universal came up with the biggest winner of all, Steven Spielberg's relentlessly charming *E.T. the Extraterrestrial*, which shattered all box-office records, earning almost \$3.5 million a day.

In Washington, D.C., the Motion Picture Association of America,

still run by Jack Valenti, ran a blitz of Capitol Hill, trying to secure congressional approval for a percentage of the home video rental market for the film industry. The crusade began in February 1984, just one month after the U.S. Supreme Court ruled that home video recording was legal. Hired to lobby the Hill was Senator Paul Laxalt's thirty-year-old daughter, Michelle, who had previously been in the State Department's congressional relations office. Senator Laxalt sat on the Senate Judiciary Committee, which was debating the matter. Michelle Laxalt, who had been placed on staff the previous fall, told *The Washington Post*, "I don't touch Laxalt. That's been my modus operandi as long as I've been in this town."

At the end of 1984, MCA appointed former Republican senator Howard Baker to the MCA board of directors. Baker joined Robert Strauss, the former chairman of the Democratic National Committee, who had earlier been appointed to the board.

Going into the 1985 television season, MCA-Universal had several potential hits on its lineup, including Miami Vice, Simon & Simon, Airwolf, Murder She Wrote, Knight Rider, and Magnum, P.I.—and mid-season replacements shows such as The Misfits, The Equalizer, The Insiders, Alfred Hitchcock Presents, and Amazing Stories. In all, the company had eleven hours of prime-time television programming. Also, Universal Pictures was producing more blockbusters like The Breakfast Club, Back to the Future, Mask, Fletch, Out of Africa, and Brazil, which became a major embarrassment for Sidney Sheinberg.

Terry Gilliam, the director of two Monty Python black comedies, found that the American opening of his film Brazil, which played well in Europe, was being postponed by Universal, its U.S. distributor. The problem was the film's ending. In Gilliam's sophisticated and sometimes eerie update of George Orwell's 1984, the film's central character, Sam Lowry, meets a horrible end. But Sheinberg, who reportedly liked the picture but thought it could be better, refused to distribute it in the U.S. without a happier ending. Gilliam drew the line and told Sheinberg and Universal that the ending "is not negotiable." Under the terms of his contract with Universal, Gilliam gave the studio approval over the final cut. Also, according to the agreement, Gilliam was not permitted to be critical of the studio. Instead, he purchased a full-page ad for \$1,400 in Variety, asking, "Dear Sid Sheinberg, When are you going to release my film, Brazil?" Gilliam then held two unauthorized screenings of the film in Los Angeles. Brazil immediately received raves from reviewers and won Best Picture from the Los Angeles Film Critics Association, bringing more pressure on Sheinberg and Universal to

relent. Soon after, Sheinberg, who, like Wasserman, loves success, backed off and released *Brazil*—with Gilliam's original ending.\*

Toward the end of 1985, MCA had remained a steel monolith in the entertainment industry, untouched by the scandals and corporate shake-ups other studios had experienced. By the end of the year, it had achieved revenues of \$2.1 billion and a net income of \$150 million. Despite the fact that its stock was selling at least \$10 a share below the company's asset value—at 64¾ at one point—no serious takeover bids had threatened the corporation.

The only potential challenge came from the Golden Nugget, Inc., a gambling concern in Las Vegas and Atlantic City owned by forty-two-year-old Stephen A. Wynn.† The Golden Nugget had quietly amassed 2.3 million shares or nearly five percent of MCA stock, valued at \$95 million. Under SEC regulations, the purchase of more stock would then require public disclosure of the investment. Wasserman warned that if Wynn and the Golden Nugget did buy any more stock it would be viewed as a hostile act, and that MCA would do "what was necessary" to protect itself. Wynn eventually sold his shares and abandoned his takeover bid. "Since then," according to one report, "MCA has increased its credit line to \$1 billion—a war-chest that could be used to block a takeover—and amended its bylaws to reduce the power of dissident shareholders. Sheinberg described these steps as 'anti-unfair takeover' measures.

"He refuses to discuss merger rumors, which include a report that MCA has held talks with RCA. Responding to gossip 'can be a full-time job,' Sheinberg said."

The talk circulating about MCA's possible merger with RCA was more than mere gossip. On October 20, 1985, a month after Wasserman shared center stage with First Lady Nancy Reagan at a star-studded Los Angeles dinner, New York Times reporter Geraldine Fabricant wrote: "Now there is evidence that Mr. Wasserman's era is coming to an end. The first indication surfaced last summer with the disclosure that Mr. Wasserman had discussed the possibility of the RCA Corporation acquiring MCA [making it RCA's largest division]. The talks broke off in September, but given Mr. Wasserman's age and the current merger mania, many in Hollywood are guessing that MCA's chairman will soon sell out—even possibly to RCA."

<sup>\*</sup>Both Wasserman and Sheinberg refused to be interviewed for this book.

<sup>†</sup>Wynn had signed Frank Sinatra to an exclusive entertainment contract for the Golden Nugget in November 1982; the two men had done television commercials together promoting the casino. Sinatra also owned two percent of the Golden Nugget's stock.

Fabricant estimated that the purchase price for MCA would be \$3.6 billion, based upon MCA's stock alone, then valued at a low \$48 a share. She added that just the previous month, communications mogul Ted Turner had bought MGM-United Artists for only \$1.6 billion, "the most expensive entertainment industry acquisition to date." By 1988, MCA would make \$750 million solely from the syndication of its more recent television series, with another 12,000 episodes of other, older series. Universal Pictures further boasted the second-largest film library in the industry, with over 3,000 motion pictures.

In the wake of the New York Times story, the RCA-MCA merger was believed to be not only possible but imminent. But then, on December 11, 1985, after over a month of negotiations, Ronald Reagan's former employer, General Electric, bought RCA for \$6.28 billion—the biggest and most expensive non-oil purchase in American history. A member of the RCA board of directors who voted to approve the deal was former attorney general William French Smith.\* In a joint statement, the chairmen of the boards of both GE and RCA, John Welch, Jr., and Thorton F. Bradshaw, declared that the merger is an "excellent strategic opportunity for both companies that will help improve America's competitiveness in world markets."

Welch added, "We don't envision any government [antitrust] problems that would stop this in any way." The Justice Department's Antitrust Division approved the purchase on May 21, 1986. Ironically, fifty-two years earlier, U.S. antitrust chief Thurman Arnold had forced GE out as RCA's principal stockholder because the relationship was viewed as "monopolistic." The Carter administration had blocked a proposed merger between General Electric and Hitachi, both major television manufacturers, because of possible violations of the Sherman Antitrust Act.

Predictably, Reagan's top advisers in his cabinet and at the White House advised him to seek fundamental changes in U.S. antitrust laws in an effort to bring these statutes in tune with the new "economic realities." Reagan press secretary Larry Speakes insisted that these "reforms" would be chiefly "to allow those companies in the United States who are severely affected by foreign competition to have a better opportunity to merge. We believe it would put U.S. commerce on a more competitive footing and in the long range be beneficial to consumers." Specifically, according to one report, "A key proposal would ask Congress to change the seventy-one-year-old Clayton Act, one of the

<sup>\*</sup>Smith was replaced by Edwin Meese as attorney general on February 23, 1985.

two pillars of antitrust enforcement, to lessen uncertainty over the legality of mergers. The language in Section 7 of the Sherman Antitrust Act prohibiting mergers that 'may' lessen competition or 'tend to create a monopoly' is so vague that it inhibits some mergers that would improve competition and strengthen markets and industries, administration officials say. The goal would be to remove this barrier."\*6

Meantime, as things looked up for MCA on the antitrust front, other matters were still hanging. One was a \$22.5 million lawsuit filed against MCA-Universal-Television by actor James Garner, who charged in 1983 that the studio had defrauded him in its handling of *The Rockford Files*, Garner's popular television series. Even though the program had been in the national syndication markets for several years, Universal had claimed that the show had yet to become profitable. "If that didn't make a profit," Garner told *Washington Post* reporter Tom Shales, "what makes a profit? You've practically got to go get your money from these guys. You've got to go get it with a gun practically. . . . I feel like I worked with the Charlie Manson family working for Universal. They're a bunch of crooks, and they always have been, and they always will be."

Garner continued, "I feel like I'm in a business with the biggest bunch of crooks you could ever put together. The Mafia's not as big as these people. They don't hold a candle to them. They can do it with a pencil."

Although the running dispute between Garner and MCA-Universal had been going on years before he filed his suit against them, the shooting war began on January 16, 1980. Garner was driving his car on Coldwater Canyon in the Hollywood Hills, near the intersection of Mulholland Drive, when another car, driven by a free-lance photographer, tried to pass him on the right-hand side. Because there was no right lane, the two cars collided. Garner sat in his car, stunned, as the photographer jumped from his vehicle and ran to Garner. Seeing Garner's window open, the photographer punched the still-dazed actor in the face. Garner struggled to get out of his car and defend himself, but the photographer was too fast and too tough. Garner was badly beaten. According to a close friend and fellow actor of Garner's, "Right after the fight, Jimmy was helped up by an aide to a top MCA executive, who just happened to be in the traffic at the scene of the fight."

<sup>\*</sup>While the Reagan Justice Department was reconsidering its antitrust laws, MCA outbid Westinghouse Broadcasting and agreed to buy WOR-TV—an independent station in New York, broadcasting throughout the U.S. via cable television—from RKO General, Inc., for \$387 million. It was the first time MCA had purchased a television station.

While he was recuperating from the assault in the hospital, MCA-Universal filed a \$1.5 million lawsuit against Garner for failing to complete the entire season of *Rockford* episodes. The litigations between Garner and MCA-Universal are still unresolved, and the corporation has refused comment on Garner's charges while the cases are pending.

However, the dispute with Garner did not attract the attention that MCA Records did. At the end of 1979, MCA Records had suffered nearly \$10 million in losses. After some corporate personnel shuffling, the new management turned the record division around, reporting nearly \$16 million in total gains by the end of 1980. This was primarily due to drastic reductions in staff and an overhaul in the day-to-day operations of the division. Frills like big industry parties, and even general spending, were cut while prices on records rose. MCA Records also began making distribution deals with other record companies. In 1984, MCA took control of the distribution of Motown Records, helping Lionel Richie's "Can't Slow Down" shatter Motown's sales record for a single disc.

While MCA Records appeared to be riding high, another payola scandal, a throwback to the late-1950s scams, broke wide open. Once again, record promoters were paying to get their clients air time. According to an NBC Nightly News report in late February 1986, record companies, including MCA, had become involved with independent record promoters who had ties to major Mafia figures. MCA and the other companies quickly got off the hook by simply denying any knowledge of wrongdoing and divorcing themselves from certain independent promoters.

At the time the payola matter was revealed by NBC, there was no official federal investigation into either payola or the use of independent promoters—despite NBC's claims to the contrary. In fact, a congressional investigation into the matter in 1984 failed to find any evidence of such practices, and recommended against further investigation.

However, according to federal investigators in Washington, D.C., the official investigation of the record business concentrated on the practice of counterfeiting in the industry and the sale of five million cutout (out-of-date) albums from MCA to Out of the Past, Inc., a Philadelphia-based discount record company. The FBI and the IRS uncovered a major counterfeiting operation in which 20,000 phony record albums were discovered. The owner of Out of the Past, John LaMonte, began cooperating with the FBI after serving time in prison for record counterfeiting. He entered the Federal Witness Protection Program,

telling government investigators that he was allegedly the victim of extortion demands by Salvatore Pisello and Morris Levy, the president of New York's Roulette Records. Both Pisello and Levy have been tied by federal documents to organized crime. Pisello, in particular, has been identified as "a 'suspected' member of the Carlo Gambino family of La Cosa Nostra" and an alleged narcotics trafficker.

According to a sentencing memorandum filed in April 1985, in which Pisello was sentenced to two years in prison for income tax evasion:

Pisello convinced MCA Records of Universal City to distribute the Sugar Hill label. Sugar Hill Records of New Jersey specializes in soul and rock 'n' roll music, including the recordings of Chuck Berry. According to MCA, Pisello put the parties together and received the rights to 3 percent of the net proceeds due Sugar Hill. MCA states that Sugar Hill soon had "cash flow" problems and remains in arrears to MCA for \$1.7 million. Pisello personally received \$76,530 in 1984 from MCA in commissions on the Sugar Hill deal. It remains unclear what Sugar Hill paid Pisello for his efforts.

Pisello also sold MCA a large quantity of breakdancing mats. After paying Pisello's company, Consultants for World Records, Inc., \$100,000 for the mats, MCA took a \$95,000 loss when they did not sell. MCA also advanced Pisello \$30,000 in 1984 for expenses involving his expertise in delivering a Latin music line and \$50,000 in 1985 for future income on the Sugar Hill deal.

In a fourth deal Pisello arranged for MCA to sell two of his clients 60 truckloads of out-of-date record albums and cassettes worth \$1.4 million. Although [these were] shipped a year ago, the clients have yet to pay. Most of the trucks left the records and tapes at a company called "Out of the Past, Ltd.," in Darby, Pennsylvania; much of the rest went to Arkansas and South America.

In total MCA paid Pisello over \$250,000 in the past year for various deals. Yet Pisello told the Probation office that he has but \$2500 in the bank, has earned but \$50,000, and owes MCA and Sugar Hill \$330,000.

LaMonte and Out of the Past had complained to both Pisello and Levy that the truckloads of records sent him by MCA were nothing but "junk" and completely worthless. As a result, LaMonte refused to pay Pisello and Levy, through Pisello's Consultants for World Records, Inc. Consequently, Pisello and Levy could not pay MCA. Soon after LaMonte's refusal to pay, he was badly beaten by Gaetano Vastola, a New Jersey Mafia member and an associate of Frederick Giovanielo, who was also present at LaMonte's meeting with Pisello and Levy.

Giovanielo, a member of the Genovese crime family in New York, was charged in February 1986 with the murder of a New York Police detective. The FBI, which had LaMonte under surveillance at the time, was able to capture the attack on film. Federal investigators have indicated that they believe that the Mafia might have been attempting to infiltrate MCA Records.

An MCA spokesman told Los Angeles Times reporter William Knoedelseder,\* who first broke the MCA/Pisello cutout story, "Sal Pisello is a representative of Sugar Hill Records, an independent record company that MCA distributes. Additionally, he represented a buyer who purchased records discontinued from the MCA catalogue. MCA had no prior knowledge of the circumstances leading to Mr. Pisello's conviction... MCA has been in constant contact with the Justice Department during this investigation and has cooperated fully and will continue to do so."8

## RONALD REAGAN

A report released by the U.S. General Accounting Office, the watchdog of the federal government, in December 1980 stated, "Organized crime is flourishing.... [It] is a billion-dollar business which affects the lives of millions of individuals and poses a serious problem for law enforcement agencies. The effects of organized crime on society are pervasive."

The underworld during the 1980s has continued to cost the public billions of dollars each year. Organized crime's grip on industries ranging from construction to food processing and trucking to record companies, among other legitimate businesses—as well as some of the unions representing their workers—has only increased. This is apart from its traditional illegitimate enterprises in gambling, narcotics, prostitution, and loan-sharking, among others, which yield billions more. The tremendous rise in mob-owned garbage companies, the underworld's illegal dumping of dangerous chemicals, and its virtual takeover of the

<sup>\*</sup>Knoedelseder also reported on May 11, 1985, on a lawsuit filed against MCA by George Collier—the former West Coast regional director for MCA Distributing, the manufacturing arm of MCA Records—who had been fired in June 1984. Collier claimed that he was doing "detective work" about the activities of several company vice-presidents who . . . were improperly sending "thousands" of free records to two retail accounts in the Los Angeles area. Knoedelseder wrote: "Collier became suspicious of the shipments because the records supposedly were being given away for promotional purposes but, on the orders of the vice-presidents, they contained no markings prohibiting their sale through normal retail channels." When asked about the case, MCA attorney Allen Susman simply said, "He was fired for cause," and refused further comment. The case is pending.

toxic waste industry have made its activities literally a public health hazard.

In short, organized crime has become institutionalized in the United States. One organized crime expert explained, "Whenever some tribute [to the underworld] is paid financially, it's going to be passed on to the consumer. The public doesn't view the problem in terms of how it affects them."

Prosecutors battling against the mob have been aided by the Racketeer-Influenced and Corrupt Organizations Act, or RICO, which made it a crime to conduct or finance even a legitimate business through any form of racketeering. The RICO statute also gave the federal government jurisdiction when certain crimes including murder were committed under state law.

The use of such laws by the Carter administration—especially by Attorney General Benjamin Civiletti, FBI Director William Webster, and David Margolis, the head of the U.S. Strike Force Against Organized Crime—was responsible for the investigations and indictments, as well as the convictions in some cases, of several top Mafia bosses, including Tony Accardo of Chicago, James T. Licavoli and Angelo Lonardo of Cleveland, Nick and Carl Civella of Kansas City, Dominic Brooklier and Sam Sciortino of Los Angeles, Santos Trafficante of Miami, Frank Balestrieri of Milwaukee, Carlos Marcello of New Orleans, Carmine Persico and Funzi Tieri of New York, Russell Bufalino of Pittston, Pennsylvania, Raymond Patriarca of Providence, Rhode Island, and Joseph Bonanno of Tucson, Arizona.

Less than a month after President Ronald Reagan was inaugurated, Ryan Quade Emerson, the publisher and executive director of Organized Crime Review, reported in his February 1981 issue, "About six months before the presidential election I received word that certain individuals within the Reagan camp were negotiating with key people in Las Vegas, Nevada, who were involved in the casino industry, the Teamsters Union, and organized crime. The basis for the discussions was the acute desire of the Teamsters Union to obtain relief from the aggressive probes by the United States Department of Justice organized crime strike forces and the Federal Bureau of Investigation. There was also a continuing grave concern about the FBI's productive court-ordered wiretaps that had revealed the hidden interests in many Las Vegas hotels and casinos by some of the country's most powerful organized crime figures."

During the early months of President Ronald Reagan's first term,

Nevada senator Paul Laxalt met with Attorney General William French Smith no less than three times, specifically to discuss the possibility of minimizing the role of the Justice Department's Strike Force Against Organized Crime in Las Vegas. Laxalt had been loudly complaining that Las Vegas was "infested" with pesky FBI and IRS agents, and he pledged to use his influence on the U.S. Senate Appropriations Committee to get federal investigators off the backs of Nevada's casino operators. Laxalt had publicly taken the position that organized crime was no longer a factor in Nevada, which, he insisted, had established tight monitoring programs to keep out mobsters.

Neither Laxalt's associations with a variety of shady figures nor his brazen attempts to curb the government's investigations of the casino industry drew even a flicker of interest at the White House. Fred Fielding, President Reagan's special counsel, said, "The White House doesn't review elected officials, but I have never had one moment's hesitation to be concerned about Paul Laxalt [sic]."

David Gergen, Reagan's then-director of White House communications, added, "The president regards Paul Laxalt as one of his most trusted confidantes, someone who has been of tremendous assistance to him in his political life—not only in campaigns, but in the time he's been president. He believes that Laxalt is a man of integrity and forth-rightness. He welcomes his advice, and it's always proven to be valuable." 10

Apparently, Laxalt's advice was taken.\* At President Reagan's first opportunity to revise the federal budget, he imposed a one-third cutback of the FBI's investigations of gambling, prostitution, arson-for-profit, gangland murders, and pornography—along with a hiring freeze and dramatic staff reductions within the FBI. Reagan also indicated that no new undercover operations would be authorized in fiscal 1982 against organized crime or white-collar crime.<sup>11</sup>

The Reagan administration then severely curtailed the investigative and enforcement abilities of the Securities and Exchange Commission, the Internal Revenue Service, and the Justice Department's Strike Forces Against Organized Crime—as part of its program to get the government off the backs of the people. The administration also attempted but failed to dismantle the Bureau of Alcohol, Tobacco, and

<sup>\*</sup>In a letter to *The Sacramento Bee* dated November 18, 1983, Laxait wrote, "Since 1981 and after investigating the FBI situation in Nevada, I came to the conclusion that staffing in Nevada was reasonable and since that time I have supported full funding for the FBI in Nevada in the committees in which I have direct jurisdiction over its resources." Attempts to interview Laxait for this book were unsuccessful.

Firearms of the Treasury Department, which had been extremely effective in the war against organized crime but had been opposed by the Reagan-allied National Rifle Association.

In one of its first legislative moves, the Reagan administration urged Congress to repeal two federal taxes on gambling, saying that it is "wasteful and inefficient" to try to collect them. An assistant to Secretary of the Treasury Donald Regan outlined Reagan's views at a Senate hearing on a bill proposed by Senator Howard Cannon to exempt legal gambling from taxes.

Attorney General Smith moved to eliminate the Ethics in Government Act and the Foreign Corrupt Practices Act, as well as major portions of the Freedom of Information Act. He then reshuffled the Justice Department's priorities away from investigations and prosecutions of organized crime figures to a new emphasis on "violent crime." State and local authorities were not promised any additional funds from the federal government—although ninety-four percent of all crime committed is within their jurisdictions. Other federal programs slated for severe budget cuts were those dealing with the problems of narcotics trafficking and juvenile justice.

Reagan blamed the rising crime rate on "utopian presumptions about human nature. We should never forget: the jungle is always there, waiting to take us over."

While the Reagan administration went through the motions of fighting crime, Secretary of Labor Raymond Donovan had again found himself in trouble. He was facing numerous hearings before the Senate Labor Committee and a variety of charges leveled against him by an array of respected government informants. The focal point of most of the investigations of Donovan revolved around his personal and professional relationship with mobster William Masselli. At the time of the Donovan investigation in 1981, Masselli was under a double indictment for hijacking food and for manufacturing synthetic cocaine.

On May 22, 1981, less than a week after taking over as general president of the Teamsters Union in the wake of Frank Fitzsimmons's death, Roy Williams was indicted for conspiring to bribe Senator Howard Cannon. Two days earlier, the U.S. Permanent Subcommittee on Investigations released an interim report on the Teamsters. It described Williams as "an organized crime mole operating at senior levels of the Teamsters Union. . . . A serious question has arisen as to whether or not Roy Lee Williams has any place in any position of trust in the labor movement." At the time of his appointment as Teamsters president,

Williams announced, "I'll never forget where I came from, and I'll never forget the people who helped me get here."

The subcommittee recommended that the Labor Department take action against Williams to have him removed as the general president of the union because he had taken the Fifth Amendment in lieu of testifying in August 1980, the day before he and Jackie Presser met privately with Reagan. Ray Donovan refused to take any action against Williams, claiming that he lacked the authority to do so. Senator Sam Nunn recalled that in 1976 the Labor Department had forced Williams, he had taken the Fifth while appearing before the subcommittee. Nunn charged that Donovan was trying "to protect the interests of the union hierarchy [rather] than the rank and file."

On June 1, just ten days after Williams's indictment and twelve days after he was described by the Senate as "an organized crime mole," President Reagan addressed the delegates of the Teamsters convention in Las Vegas on videotape. During his talk, Reagan said, "I hope to be in team with the Teamsters." On June 12, despite the criticism he received for his praise of the Teamsters, Reagan invited Williams to the White House with other labor leaders to discuss his federal tax-cut proposals.

Peter B. Bensinger, the head of the Drug Enforcement Administration who had been originally appointed by President Ford and retained by President Carter, was ousted by the Reagan administration in favor of Francis "Bud" Mullen, the assistant director of the FBI. Members of the Senate Labor Committee questioned whether the job was a payoff to Mullen, who had been chiefly responsible for concealing Labor Secretary Raymond Donovan's organized crime ties from the committee during his confirmation hearings.

In response to Reagan's proposals that the FBI budget be cut by six percent and that the DEA budget be cut by another twelve percent (which would cause the dismissal of 434 DEA employees, including 211 agents), Ira Glasser, the executive director of the American Civil Liberties Union—characterized by Reagan's chief of staff, Ed Meese, as a "criminal lobby"—called Reagan's anticrime proposals a "fraud in terms of being serious proposals to reduce crime."

Attorney General Smith announced that the Justice Department was going to launch a "vigorous" war on crime without additional funding. In response, Senator Joseph Biden charged that while the Reagan administration was talking tough about crime, they were cutting the

budgets of the FBI, DEA, U.S. attorneys, Immigration and Naturalization Service, and Coast Guard. Biden also noted that sixty percent of the cases handled by the attorney general's office were being dropped because its lawyers did not have enough time to deal with them.<sup>12</sup>

Attorney General Smith later shifted gears and announced that narcotics trafficking—not violent crime—was the nation's "most serious crime problem," and that the FBI would assume jurisdiction over the Mullen-led DEA. FBI Director William Webster opposed the idea for the same reason J. Edgar Hoover had spoken out against FBI agents being involved in drug-related investigations. Both Webster and Hoover had feared that FBI agents might be corrupted by drug work that involved large amounts of cash. Unlike Hoover, Webster also wanted to avoid the perception that the FBI was becoming a national police force.

On January 28, 1982, Reagan appointed a Cabinet-level task force to coordinate federal efforts to combat drug-smuggling operations in south Florida, a haven for narcotics traffickers. Vice-President George Bush was appointed as the head of the special unit. Other members of the task force included Smith, Meese, and the secretaries of state, defense, treasury, and transportation. Soon after, Bush announced that federal authorities would use radar planes in their "war against drugs," as well as 130 customs and 43 FBI agents.

In March 1982, the General Accounting Office was lodging complaints with the White House, Congress, and the Department of Justice about the secrecy within the DEA, and the GAO's inability to review the agency's progress against big-time drug dealers. The study had been requested by Senator Joseph Biden. Both the White House and Attorney General Smith refused to cooperate and release the documents necessary for the GAO's investigation. In a March 31, 1982, letter to Reagan, Comptroller General Charles A. Bowsher reported that "for the most part, access to the records was denied altogether" by DEA. "Although some records were provided, access to them was delayed, and not all of the records were complete."

As a result of the mounting charges against Labor Secretary Donovan, the U.S. Court of Appeals selected Leon Silverman, a New York attorney, as a special prosecutor to investigate Donovan. Smith wanted to limit Silverman's power to probing only specific allegations raised during Donovan's confirmation hearings, but the appeals court broadened his authority to include investigation of any charges brought against Donovan. Almost immediately, Silverman was criticized

for the narrow scope of his investigation despite the latitude he had been given.

As Silverman began his grand jury investigation on February 1, 1982, the Senate Labor Committee continued its probe into allegations of mob money being laundered through Donovan's construction firm, as well as the FBI's handling of information regarding Donovan's underworld connections prior to his confirmation hearings. In the spring, the committee asked the Justice Department for wiretapped conversations of mobsters who had discussed their dealings with Donovan. However, Attorney General Smith refused to cooperate with the committee and did not turn over the tapes.

When finally asked how he was viewing the entire Donovan matter, President Reagan replied, "Nothing I've heard has . . . reduced my confidence in Secretary Donovan."

In mid-June, as the Donovan probe intensified, a key government witness against him in the special prosecutor's investigation, Fred Furino, was found in the trunk of his own car in Manhattan with a bullet in his head.

On June 20, puzzled by Reagan's apparent apathy regarding Donovan, *The New York Times* wrote: "At a minimum, Mr. Reagan's aides showed a lack of curiosity in January 1981, when they were told that Mr. Donovan had 'close personal and business' ties to organized crime figures."

Soon after Furino's murder, when asked whether Reagan had changed his mind about Donovan, presidential spokesman Larry Speakes replied with two words: "No change."

On June 28, Silverman issued a 1,026-page report that stated, "In sum, there was insufficient credible evidence to warrant prosecution of Secretary Donovan on any charge." Donovan called a press conference and said happily that he was "extremely pleased and not surprised," adding that the report "vindicated" him. President Reagan said, "Certainly I'm sticking with him. . . . This case is closed."

However, on August 1, Silverman reported that two new "substantial" charges had been made against Donovan. Twenty-four days later, William Masselli's son, Nat Masselli, was shot to death. Masselli had also been a key witness for Silverman, who stated after the killing, "I am disturbed that anybody who is involved in my investigation should be murdered, and I have asked the FBI to conduct an intensive investigation to see whether that murder is linked to this investigation."

Nevertheless, on September 13, Silverman, for the second time, an-

nounced that there was "insufficient evidence" against Donovan to prosecute him. But Silverman permitted himself to describe the lingering allegations about Donovan as "disturbing."\* Larry Speakes said, "It was not unexpected. Case closed again."

In response to the Reagan administration's cosmetic anticrime measures, attorney Paul Ziffren's old friend, Judge David I. Bazelon, a member of the U.S. Circuit Court of Appeals for Washington, D.C., claimed that Reagan's anticrime actions would endanger civil liberties. "Nothing could have given Reagan's war on crime more legitimacy than an attack from Bazelon," said an FBI agent in Washington, D.C. "The liberals, taking their lead from Bazelon, would follow suit, saying that Reagan was being too tough on crime. In fact, Reagan had one of the softest attacks on crime we'd seen in years."

The Reagan administration reaped the rewards of President Carter's effective anticrime attack. William Webster, the FBI director, and Benjamin Civiletti, whom Carter had appointed attorney general in 1979, proved themselves to be the best crimefighters this country has had since Robert Kennedy was attorney general. But because of judicial due process, the success of the Carter administration's investigations and prosecutions of organized crime figures was not known until the early years of the Reagan administration.

By September 1982, of those organized crime cases initiated, investigated, and prosecuted by the Carter Justice Department, an amazing 1,100 convictions were won. This figure included over three hundred Mafia members, including top mob kingpins in New York, northern Pennsylvania, Philadelphia, the Buffalo-Rochester area, New Orleans, Chicago, Milwaukee, Cleveland, Detroit, and Kansas City.

The Reagan administration immediately took credit for these cases, adding them to its list of accomplishments to be heralded at election time—while continuing to attack the Democrats for being "soft on crime."

On October 14, 1982, to dramatize the administration's purported commitment, Reagan declared "war on organized crime," announcing that "the time has come to cripple the power of the mob in America."

<sup>\*</sup>Bronx prosecutor Stephen R. Bookin testified at a federal court hearing on December 13, 1984, that Silverman had limited the scope of the Donovan inquiry, telling grand jurors that a probe into the business link between the Mafia-controlled Jopel Contracting Company and Donovan's Schiavone Construction Company "was not within their mandate," according to Bookin. Donovan was later indicted with nine others on charges stemming from his relationship with Jopel. After the special prosecutor's second report on Donovan, the press, for all intents and purposes, stopped covering the charges against Donovan. The lone exception was George Lardner from The Washington Post, who kept the story alive.

The president announced that he was going to create twelve special task forces around the country, composed of nine hundred new agents from a variety of federal agencies, in addition to two hundred new assistant U.S. attorneys and a support staff of four hundred. The program, Reagan said, would cost between \$130 million and \$200 million, and would be patterned after the special task force being conducted by Vice-President Bush in south Florida.\*

The New York Times was skeptical about Reagan's announcement and published an editorial on October 18 saying, "Announcing a new White House drive against organized crime prior to a national election looks, well, political. There are no new funds for the program, and it offers no additional resources for what may be the most effective strategy: attacking the drug crops in other countries."

Immediately after the president's declaration of war and his early-November appointment of Paul Laxalt as the general chairman of the Republican National Committee, a budgetary dispute erupted among the heads of the ten federal agencies slated to be involved in Reagan's war against drugs. When Reagan was asked to intervene and settle the question of who would control the bulk of the funding as well as the prosecutions, the White House promised answers after the midterm elections.<sup>14</sup>

Reagan had few answers for the agencies after the elections, but did have time for a photo opportunity in south Florida on November 17. Photographers flashed cameras at Reagan and Smith while they inspected a cache of \$4.5 million worth of marijuana and \$5.9 million worth of cocaine that had been seized by federal agents. Later in November, Smith went to Pakistan and Landi Kotal, a tiny town in the Khyber Pass—which had been a major drug smuggling center for hundreds of years. In another photo opportunity that backfired, Smith and a small army of Pakistani soldiers became fearful for their safety as they walked through the town, filled with locals who were rumored to be well-armed and dangerous.

Back in Washington, Reagan announced that he would ask Congress to approve his \$155 million antidrug package, including \$25 million for south Florida alone, and to transfer the necessary funding from other government programs. On December 7, The New York Times once again published an editorial critical of Reagan's crime program. "Was

<sup>\*</sup>The night before Reagan declared war on organized crime, top Reagan administration officials—Attorney General Smith, CIA Director Casey, and Presidential Chief of Staff Meese, among others—attended a fifty-dollar-a-plate "Tribute to Raymond J. Donovan" dinner. Guests wore buttons reading, "I'm a friend of Ray Donovan."

this just another bold anticrime proposal surfacing in the thick of a campaign and destined to sink from sight after the votes were counted? The skeptics now seem vindicated. The administration duly asked Congress to pare the needed money funds from other budgets. But when this met opposition, the White House backed off. The Office of Management and Budget now says it cannot find enough money in other programs, and offers no alternative. . . . Not to fund the program, now that the election is over, turns an admirable plan into a cynical ploy. In the matter of crime-busting, that is disgraceful."

Two days after the *Times* editorial, Smith went to the Senate Appropriations Subcommittee for an additional \$130 million to help bail out Reagan's antidrug program. Senator Ernest Hollings charged, "We're behind the eight-ball in crime," adding that the number of employees in the FBI, DEA, Coast Guard, Customs, INS, ATF, and IRS had dropped by 19,609 since Reagan took office.

In response to the Reagan administration's pleas for help, Congress passed an anticrime bill, which, among other reforms, called for the creation of a Cabinet-level "drug czar" to oversee the federal crackdown against drug dealers. The administration immediately opposed the bill solely because of the drug czar clause, which the White House said would add another layer of bureaucracy.

Senator Joseph Biden of Delaware wrote an Op-Ed piece for *The New York Times* on January 4, 1983, insisting: "Turf wars among government agencies responsible for federal control of narcotics, long a major obstacle to such control, would finally be eliminated by a bill that is awaiting President Reagan's signature. If he succumbs to bureaucratic arguments to veto it, he will invite a severe setback to his own commendable efforts to control drug trafficking and the crime it spawns in every corner of this country."

In response, Smith claimed, "We have taken unprecedented steps to combat the widespread lawlessness in America." The war against crime in America continued to be a war of words.

Within the underworld, there was still plenty of action. On January 20, 1983, Allen Dorfman was shot eight times in the head by two ski-masked killers while walking across a parking lot in Chicago.\* The

<sup>\*</sup>The principal target of the Dorfman murder investigation was Anthony Spilotro, the chief enforcer for Chicago Mafia boss Joey Aiuppa and his underboss Jackie Cerone. Believed to have engineered the killing at the behest of Aiuppa and Cerone, Spilotro was also alleged to be the Chicago underworld's point man in Las Vegas, overseeing all of its gambling, narcotics, and prostitution operations. Also suspected to be a stone killer, Spilotro was a convicted gambler who had been arrested over twenty times and once indicted for murder. Although his alleged accomplice testified against him at that trial, describing how Spilotro mutilated the victim's body with

previous month, Dorfman and Teamsters general president Roy Williams were convicted of attempting to bribe Senator Howard Cannon. Informed sources said that Dorfman was considering plea-bargaining his way out of a long prison term at the time of his murder.

As Reagan pondered the fate of the congressional anticrime legislation, the General Accounting Office—which had finally pried loose the necessary documents from the DEA and the Justice Department—issued a status report regarding the war on drugs. The GAO report stated that the price of heroin had fallen from \$2.25 a milligram in 1979 to \$1.66 in June 1982, while cocaine dropped from sixty-five cents to fifty-two cents. The report added that while the price was going down, the purity of both drugs had also increased, indicating a larger supply. The GAO blamed the failure of the drug war on the lack of a central coordinator to direct those federal agencies involved. In south Florida alone, the report said, \$66 million had been spent during the previous year with little result because of this lack of coordination.

Despite the official pressure to sign the anticrime bill, Reagan vetoed it in mid-January 1983 because of the drug czar clause. Soon after, William Webster said that the illegal flow of drugs into the U.S. without an effective response had caused Americans to lose faith in the government's ability to protect them. "It is the inundation of drugs—some of which are grown here—that is eroding public confidence and corrupting public officials," Webster said.

The convicted Roy Williams was succeeded by Jackie Presser as general president of the Teamsters Union on April 21, 1983. Presser promised to operate "an open, honest administration." When asked whether organized crime still had influence in the Teamsters, Presser simply replied, "Not to my knowledge." At the time of his selection as president, Presser was the target of a Labor Department probe, investigating his role in a union embezzlement scheme in Cleveland.

On April 25, after receiving a telegram of congratulations from Reagan, Presser had lunch with Secretary of Labor Ray Donovan. After the meeting, Presser said that Donovan "extended the hand of friendship... and gave me some advice... about which direction he would like to see this International go. He also gave me a couple of boots here and there, but I'm big enough to take that, and I understand what he's saying."

Donovan simply said, "I want to work closely with him [Presser] to

a knife, Spilotro was later acquitted. Federal investigators believe that during his career, Spilotro has either ordered or participated in the murders of a dozen people. Dorfman's murder was the 1,081st unsolved gangland murder in Chicago since 1920.

accomplish the ends that he has promised this union and the public that he would do. I have confidence that this relationship will . . . benefit all Teamsters throughout this country and I look forward to the relationship with Mr. Presser."

Three weeks later, Presser was invited to the White House for a June 7 state dinner. The move was viewed as part of an administration plan to use the Teamsters' support again this time for Reagan's 1984 reelection campaign. Fred Fielding, who advised Reagan against close ties with Presser, said that he was told by another top administration official that "the Teamsters are always under investigation. Presser hasn't been indicted, and there are good reasons for inviting him to the White House." 15

Presser chose not to attend the White House dinner on June 7. However, earlier that day, he appeared before a Senate committee to testify against an antiracketeering bill pending before Congress.

After Reagan issued baseless public statements in June 1983, declaring victory for his antidrug program, columnist Jack Anderson wrote, "President Reagan has pronounced his war on drugs a raging success. But the truth is that the war has been long on ballyhoo and short on results. The price of illegal drugs [continues to be] down across the country, a sure sign that the supply is up."16

On July 28, 1983, Reagan continued his public relations war against organized crime by establishing a twenty-member President's Commission on Organized Crime, headed by U.S. federal judge Irving R. Kaufman of New York's Circuit Court of Appeals. After signing the executive order creating the commission, Reagan again declared war on the underworld, repeating that it was "time to break the power of the mob in America," which he said "infects every part of our society." Like the Kefauver Committee, the commission was expected to travel to cities across the country, gathering information and testimony about local organized crime problems. Its findings would be contained in a final report due by March 1, 1986.

The same day that Reagan signed the executive order, Attorney General Smith was on Capitol Hill defending Reagan's attendance ten days earlier at the convention of the organized crime—infested International Longshoremens Association, where he called its president, Thomas Gleason, a man of "integrity and loyalty." Smith also defended Reagan's appearance on videotape at the Teamsters convention in Las Vegas. Referring to the convictions of congressmen and a senator in the FBI's ABSCAM sting operation—conducted during the Carter administration—Smith said, "If the suggestion here is that we should

boycott an organization because there may be individuals connected with that organization who have been convicted of some criminal activity, if that is the suggestion, it has remarkable ramifications because I assume, based on what has recently happened, there might be circumstances under which we would then have to terminate our relationships with Congress."

As the selection process for members of the president's commission was under way, John Duffy, the sheriff of San Diego County, who had been sponsored for a commission seat by Ed Meese, was forced to withdraw his name from consideration after his friendship with mobster Morris Dalitz was revealed.

Comparing Duffy's situation with that of Paul Laxalt, who had openly admitted his personal and financial relationship with Dalitz, a member of the commission said, "The controversy over Duffy arose, because, one, Duffy had been hurt by the revelations and, two, it could have led to a political embarrassment having him continue to serve on the commission. . . Laxalt hasn't been hurt by any of the revelations about him, and he certainly hasn't become a political embarrassment to anyone. The only people who really seem concerned by all of this information are those who study the problem of organized crime—those in law enforcement and the media."

Back in New York, a cellmate of one of the men arrested in the gangland slaying of Nat Masselli stated under oath in court that he had been told the murder was committed to prevent Masselli and his father from cooperating with Silverman's investigation of Donovan. The informant neither asked for nor received any benefit for his testimony.

Meantime, the Senate Government Affairs Subcommittee disclosed that during the Reagan administration, federal judges had cracked down on white-collar criminals and drug traffickers, often imposing large fines to prevent them from profiting from their crimes. However, the federal government had failed to collect more than fifty-five cents on the dollar of those fines levied, and 22,532 criminal fines, worth over \$185.6 million, had not been paid.

Associate Attorney General D. Lowell Jensen, who had been endorsed for his post by Ed Meese, insisted that it would "take time" for the Reagan administration's drug program to show results. "Our drug effort is like running a marathon," Jensen said. "And you shouldn't be timing a hundred-yard dash." He said that the drug war had already produced 183 indictments involving over 1,000 defendants, adding that 425 cases had been initiated against drug rings. Tom Lewis, a Republican congressman from Florida, criticized Reagan's drug war in his

state, saying, "We're just arresting ponies, the little people. Why aren't we getting the big guys?"<sup>17</sup>

The President's Commission on Organized Crime battled the White House and the Justice Department over the questions of general independence, access to information obtained through electronic surveillance, and the power to subpoena witnesses. These measures were opposed in the Congress by Senator Paul Laxalt, who sat on both the Judiciary and Appropriations Committees, and by the American Civil Liberties Union—which wrote a letter to the Judiciary Committee warning that "it is essential that the fundamental civil liberties not be sacrificed in our zeal to attack" organized crime.

On November 29, during his testimony before the organized crime commission, Attorney General Smith told its members that a "new phase in the history of organized crime" had been created by the growth of motorcycle gangs, and foreign-based, drug-rich crime organizations, like the Hell's Angels, the Bandidos, the Outlaws, and the Pagans, as well as the Mexican Mafia, La Nuestra Familia, the Aryan Brotherhood, the Black Guerrilla Family, and the Chinese, Japanese, and Vietnamese crime groups. Smith had little to say about the traditional Italian/Sicilian Mafia.

Once again, on December 3, Reagan declared war on organized crime at a White House meeting of federal prosecutors, saying, "I've always believed that government can break up the networks of tightly organized regional and national syndicates that make up organized crime.

"So I repeat, we're in this thing to win. There will be negotiated settlements, no détente with the mob. It's war to the end with the mob. It's war to the end where they're concerned. Our goal is simple. We mean to cripple their organization, dry up their profits, and put their members behind bars, where they belong. They've had a free run for too long a time in this country."

Reagan, in his State of the Union Address on January 25, 1984, declared, "Already, our efforts to crack down on career criminals, organized crime, drug pushers, and to enforce tougher sentences and paroles, are having an effect. In 1982, the crime rate dropped by 4.3 percent, the biggest decline since 1972. Protecting victims is just as important as safeguarding the rights of defendants."

Reagan had earlier submitted his own forty-four-point anticrime package to Congress—deleting the drug czar concept and asking approval for, among other things, wider latitude for use of the death penalty, the submission of illegally obtained evidence in court, and bail and sentencing provisions. Reagan called for major budget cuts in the Treasury Department's anticrime programs, forcing Treasury Secretary Donald Regan to reduce funding for the Customs Service almost by half. Then, in his weekly radio address to the nation on February 18, 1984, Reagan attacked House Democrats for holding up passage of his anticrime proposals. "Nothing in our Constitution," Reagan said, "gives dangerous criminals a right to prey on innocent, law-abiding people."

In response, Representative Glenn English said, "The White House war on drugs is being bombed by its own troops. . . . I am appalled by the lack of cooperation and coordination at the highest levels of this government to put teeth into the nation's war on drugs. While Vice-President Bush is the titular head of the White House effort, the secretary of the treasury [Donald Regan] has all but thwarted the effort." 18

In an effort to overcome the negative reaction to virtually cutting the Customs Service out of the war against drugs, the Treasury Department proposed regulations requiring U.S. financial institutions to furnish government agencies with records of their transactions with certain foreign banks that had been known to be laundering drug money for American dealers. Gambling casinos, like banks, would be required to report any and all financial transactions over \$10,000 to the IRS.

Although the new Treasury regulations were enthusiastically endorsed by the President's Commission on Organized Crime, Nevada's Paul Laxalt opposed the measures and led an intense but unsuccessful lobbying effort in the Senate against it. Laxalt explained that he felt that the reporting requirements would be an unwarranted intrusion into the major industry of his state.

In May 1984, an internal report written by DEA Administrator Bud Mullen charged that Reagan's antidrug program was a "liability." Mullen commented that the campaign's "alleged grandiose accomplishments" will "become this administration's Achilles' heel for drug enforcement." Also critical of Vice-President Bush's south Florida effort, Mullen said that the task force had done little more than take credit for the work other agencies had done. A Coast Guard lieutenant commander on the front line of the antidrug campaign called the entire program "an intellectual fraud." Florida congressman Claude Pepper added, "I can't see a single thing [the south Florida task force] has accomplished. The lack of coordination among the various agencies charged with waging the war on drugs is disgraceful." "19

Replying to Mullen's report and in the midst of demands by Congress

that the entire program be scrapped, Coast Guard Captain L. N. Schowengerdt, the head of Bush's program, simply said that the south Florida unit was experiencing "growing pains."

Testifying before the Senate Budget Committee on May 25, Attorney General Smith, when asked about Reagan's anticrime war, replied that "the coordination and cooperation is outstanding" among those federal agencies involved. Senator Dennis DeConcini, a member of the panel, retorted, "General, you're not in touch with what's going on."

As criticism of the president's war on crime and drugs continued to mount, Reagan simply blamed the national crime rate on "years of liberal leniency," adding that the "liberal leadership" of the Congress had bottled up his anticrime legislation.

That same month, Reagan appointed his old Hollywood ally, seventy-four-year-old IATSE executive Roy Brewer, as the chairman of the Federal Service Impasse Panel, which arbitrated disputes between federal agencies and the unions representing federal workers. A strong anti-communist and a friend of Ray Donovan, Roy Brewer had been the keeper of the Hollywood blacklist during the late 1940s and early 1950s. He blamed America's drug problem not on organized crime but on the Russians. "The danger is that we cannot permanently exist with the Soviet Union. They will either destroy us, or they will have to be destroyed. See, the dope traffic—and our inability to control it—has been brought about by a subtle program. They are undermining the facilities by which we can resist things that are happening." 20

As the 1984 presidential election approached, none of these issues the failed or even sabotaged war on crime and drugs or the president's organized crime-connected appointments and associations-ever emerged as major campaign issues. Despite the warnings of White House counsel Fred Fielding, the Reagan-Bush team happily accepted the endorsement of Jackie Presser and the 1.9 million-member Teamsters Union. Vice-President Bush attended the annual meeting of the Ohio Conference of Teamsters in Columbus. Bush and Presser walked into the convention hall literally arm in arm, sporting broad smiles. "We couldn't be more pleased," Bush told the cheering Teamsters. "We're very, very grateful, I'll tell you, and we will work, work hard to earn the confidence of your members. We're proud to be here." When asked about the federal investigations revolving around Presser, Bush replied sharply, "We have a system of justice in this country that people are innocent until proven guilty. There have been a lot of allegations; the endorsement has nothing to do with that."

The closest the Democratic Party came to making an issue out of

Reagan's appointments was to compile a paper entitled "Unethical Conduct by Reagan Administration Officials," prepared by Congresswoman Patricia Schroeder, chairwoman of the House Subcommittee on Civil Service. The list—which contained 101 names of public officials serving in the administration who had been "involved in instances of criminal wrongdoing, abuse of power and privilege, and improper behavior"—became part of what the Democrats called "the Sleaze Factor."

The whole issue suddenly disappeared after press accounts began to detail the New York underworld ties of Democratic presidential nominee Walter Mondale's running mate, Geraldine A. Ferraro. Among other charges, Ferraro was said to have used a known underworld associate to help her raise money for her campaign for Congress in 1979. Her husband, a real estate executive, was accused of fronting for members of the Gambino crime family in New York. Reporter Sid Blumenthal later wrote in *The New Republic:* "Despite her personal attractiveness, her support of worthy causes, and her admirable compassion, [Ferraro's] story can be understood only by taking the Mob milieu into account. Ferraro may be a paragon of legality, but this reality has been crucial to her life." Among those mobsters linked to Ferraro was alleged Ray Donovan associate William Masselli, who had been "one of the largest contributors to the Ferraro campaign debt retirement fund."<sup>21</sup>

Although Ferraro characterized such reports as "lies," the evidence against her mounted and severely crippled any chance Mondale had of unseating the popular incumbent.\*

The Republican Party, headed by Senator Paul Laxalt† and his Nevada protégé, Frank J. Fahrenkopf, never made an issue out of Ferraro's links to the Mafia. That decision might have been more self-serving than politically tasteful, because the refusal to make Fer-

<sup>\*</sup>In May 1986, after a twenty-one-month investigation and Ferraro's announced decision not to challenge New York Republican incumbent Alfonse M. D'Amato for his seat in the U.S. Senate, the Justice Department closed its probe into the finances and disclosure statements of Ferraro and her husband.

<sup>†</sup>Laxalt was the target of two competing stories by ABC World News Tonight and CBS's 60 Minutes, which were scheduled to have been aired on September 21 and 23, 1984, respectively. The stories detailed allegations of Laxalt's connections to organized crime. However, both stories were killed after 60 Minutes reporter Mike Wallace, who was also a personal friend of Laxalt's, determined that the key source in both the ABC and CBS stories had lied to him about whether he had already been interviewed by ABC (which he had, when he claimed to Wallace he had not). After being told by Wallace about the lie, Laxalt had his attorney send both networks letters, threatening libel actions if the stories were broadcast. After being briefed on the matter by Wallace, Don Hewitt, the executive producer of 60 Minutes, telephoned Roone Arledge, the president of ABC News. On the basis of their source's lie to Wallace about being interviewed by ABC, the two executives from the competing networks jointly decided to kill each of their stories.<sup>12</sup>

raro's associations a campaign issue also made such ties to Reagan and members of his administration moot.

"There was an unspoken understanding," said a top aide to the Mondale-Ferraro campaign, who refused to go into any further detail. "It was just one of those 'I'm okay and you're okay' things."

After the Congress passed Reagan's anticrime package on October 10, Reagan's attack on the Democrats for foot-dragging on that issue also became moot. To demonstrate that Reagan was doing something about the Mafia, the Justice Department indicted the entire leadership of the Colombo crime family in New York. The fifty-one-count indictment, naming eleven leaders of the group, was timed just a week before the national election.

The cavalier treatment by the Reagan administration of the serious national organized crime problem, as well as the blatant underworld ties of several of the president's top advisers, casts a long shadow over the sincerity and the willingness of this administration to combat organized crime in America. The end result will likely be a further tolerance of these activities by the general public.

The questions raised here do not necessarily allege guilt by association within the Reagan administration. However, there are legitimate reasons to question these patterns of association, particularly when President Reagan claims to be taking the hard line on the organized crime problem in America.

# SIDNEY KORSHAK

Based in Washington, D. C., and a home for scholars, the American Enterprise Institute is a conservative think tank used extensively by the Reagan administration. In 1973, the Institute published an anthology of essays on the problem of crime in America. Entitled *The Economics of Crime and Punishment*, it included the chapter "A Defense of Organized Crime?" written by James M. Buchanan, a professor of economics at the Virginia Polytechnic Institute and State University.<sup>23</sup> Buchanan argued that organized crime was preferable to disorganized crime because a degree of control and discipline was implicit with organized crime. Conceding that such a suggestion could be misunderstood, the author wrote:

Emotions may be aroused by the thought that one implication of the whole analysis is that governments should "deal with the syndicate," that law enforcement agencies should work out "accommodations" or "arrangements" with those who might organize central control over criminal effort.

... It merely suggests that there may be social benefits from the monopoly of organized crime. Policy implications emerge only when we go beyond this with a suggestion that government adopt a passive role when they observe attempts made by entrepreneurs to reduce the effective competitiveness of criminal industries. In practice, this suggestion reduces to an admonition against the much-publicized crusades against organized crime at the expense of enforcement effort aimed at ordinary, competitive criminality.

A very strong argument can be made that this belief was shared by the Reagan administration, supported by Reagan's personal history and those of his top aides, as well as his administration's shabby performance in this area. Although no official close to the president had admitted it, the Reagan administration appeared to have divided people associated with organized crime into two categories: tolerable mobsters and intolerable mobsters. Those gangsters' associates who had relationships with Paul Laxalt, Ray Donovan, Jackie Presser, Roy Williams, William Casey, Frank Sinatra, Walter Annenberg, and the members of Reagan's Kitchen Cabinet were apparently viewed as tolerable mobsters. Those with no political connections to this administration were intolerable.

From all indications, Sidney Korshak\* was a tolerable organized crime figure to the Reagan administration. Since Reagan was inaugurated, no one in the Justice Department or any other federal agency has laid a glove on him. Although the President's Commission on Organized Crime scheduled hearings to be held in Los Angeles, where Korshak was sure to be a major target, the planned trip was aborted at the behest of the Justice Department, which ostensibly did not want to prejudice the drug trial of auto executive John DeLorean, who was later acquitted.

According to charges brought by Jerry Van, a former mob legbreaker turned federally protected witness, members of the Los Angeles Strike Force Against Organized Crime "delayed or quashed grand jury action" against underworld figures in California. The investigation of Van's charges had been prompted by Congressman Charles Rangel (D-NY), who had received information about the alleged fixes while serving as the chairman of the U.S. House Select Committee on Narcotics Abuse and Control. According to one report, Van "made allegations of wrongdoing in the administration of cases by the organized crime strike force in Los Angeles. . . . The allegations were general in nature,"

<sup>\*</sup>Attempts to interview Korshak for this book were unsuccessful.

but it was determined by mid-level Justice Department employees "that there was smoke there."<sup>24</sup>

Many frustrated law enforcement observers who have realized the damage he had already done and how dangerous he continued to be feared Korshak was being protected. "It's not like Korshak operates in some specific area, like one particular business or labor union," said a former Justice Department official. "If that was so, the government could move in on that target and disrupt his interests. Korshak is unique, because he has the ability to deal with anybody, to fix anything. For that reason, Korshak himself has to become the target. And this administration doesn't seem to be interested in that idea at all. I honestly believe that their punch is being pulled."

Former California mobster turned government witness Jimmy Fratianno was deposed in Los Angeles on behalf of *Penthouse* on January 15, 1981.\* The magazine had been sued by organized crime figure Moe Dalitz for a 1976 story published about Dalitz's La Costa Country Club, which has been frequently referred to as a playground for the top figures in organized crime.

"Are you familiar with a man by the name of Sidney Korshak, a lawyer?" Fratianno was asked.

"Yes. sir."

"Through which [crime] family?"

"The Chicago family."

"You have told us today that the present head of the Chicago family is Joey Aiuppa and under him is Jack Cerone. Now, in the hierarchy of that family and how it works, is Korshak a member of LCN [La Cosa Nostra]?"

"No, he is not, sir."

"How would Korshak deal with Joey Aiuppa? Who would control whom to get to Korshak?"

"Well, he has a man he goes to."

"Who is that?"

"Gussie Alex. . . . "

"So Korshak would deal with Gussie Alex. Who would Gussie Alex deal with?"

"Well, he deals with Joe Batters."

"That is Joey Aiuppa?"

"No. Joe Batters used to be the boss, [Tony] Accardo. You see, that

<sup>\*</sup>A year earlier, in January 1980, during a meeting of the Mafia's national crime commission, the Chicago mob was given control over the underworld's interests in Las Vegas after the decision was made to keep Chicago mobsters out of Atlantic City.

is his man for years, Gussie Alex. This is what I was told. Now, I don't know if it is true or not."

"Who told it to you?"

"[Johnny] Roselli said something like that, him and Joe Batters. In fact, Joe Batters brought Gussie Alex into the picture when he was the boss of the LCN, sir. . . ."

"Who in turn controlled Korshak?"

"The Chicago family. Gussie Alex and the Chicago family."

The Chicago Crime Commission reported that Alex was still in "a key position of leadership... who has served his organization well and now desires to put some distance between himself and the ordinary problems of his group. Alex still maintains his condominium on Lake Shore Drive in Chicago, but spends most of his time at his other condo on Galt Ocean Mile in Fort Lauderdale, Florida. There is really no way the mob is going to let Alex simply fade away. His contacts among politicians, public officials, labor leaders, and members of the judiciary are simply too valuable to waste." 25

Fratianno explained that he had met Korshak in 1975 at the Bistro restaurant in Beverly Hills, where they tried to work out a dispute between two Teamsters that was causing Fratianno some business problems. When the problem was not resolved, Fratianno returned to Korshak with reputed syndicate hitman Mike Rizzitello. At that second meeting, there was no attempt to intimidate Korshak beyond the presence of Rizzitello. Later, however, Rizzitello accidentally ran into Korshak on the street. According to Fratianno, the chance meeting scared Korshak, and he complained to Gus Alex that he was being muscled. Alex then told Accardo, who told Aiuppa.

Mafia figure Tony Spilotro, who oversaw the Chicago underworld operations in Las Vegas, then called Fratianno and asked to meet with him and Rizzitello. The three men had a sitdown with Accardo, Aiuppa, and Cerone, the underboss. Fratianno was told in no uncertain terms that he was no longer to have any further contact with Korshak—"because it is putting heat on him," Aiuppa explained. "Now, if you had anything that you want from Sid Korshak, come to us. He...has been with us thirty years. We don't want him loused up."

"Had Korshak reported that a dead fish had been left in his mailbox?" the *Penthouse* attorney asked Fratianno.

"Yes, sir."

"Does a dead fish have a special meaning in the world of the LCN?"

"Well, it means that somebody is going to kill him."

Korshak later came back to Fratianno and asked him if he knew who

had left the dead fish. When Fratianno said he did not know, Korshak asked him to find out, which Fratianno never did.

On January 11, 1982, *Playboy* publisher Hugh Hefner was questioned under oath by the New Jersey Casino Control Commission about his 1978 fee of \$50,000 to Korshak for the purpose of making peace with Wasserman over a copyright suit Universal had filed against *Playboy*. Hefner was trying to get a license for his new hotel/casino in Atlantic City. Dressed in a dark blue suit, a white shirt, and even a tie, Hefner said that he thought Korshak would be a good mediator between him and Wasserman. Although he said he regretted the entire matter, he thought there had been "nothing inappropriate" about it. New Jersey Deputy Attorney General James F. Flanagan III described Hefner's \$50,000 as a payment to Korshak to "whisper in Lew Wasserman's ear."

Although three of five commissioners voted to grant Hefner and Playboy Enterprises, Inc., a gaming license, the law required approval of four of the commissioners. The commission found that Hefner was "unsuitable for licensure and association with a licensed New Jersey casino." However, the commission—which did not consider the Korshak incident alone the disqualifying factor—indicated that it would grant a license to Playboy's partner, Elsinore, with the condition that Hefner be disassociated from the project.\*

In April 1983, the U.S. Senate Permanent Subcommittee on Investigations received evidence that the international presidents of the Culinary Workers Union (also known as the Hotel Employees and Restaurant Employees International Union) and the Laborers were "handpicked" by Chicago Mafia leader Tony Accardo. The information was provided by Joseph Hauser, a convicted insurance swindler who had flipped and turned state's evidence. After being convicted with former U.S. attorney general Richard Kleindienst in a multimillion-dollar insurance swindle involving the Teamsters Central States Pension Fund, Hauser had allowed himself to be used as the hub of several FBI sting operations during the Carter administration that yielded a pending indictment against Santos Trafficante of Florida and the bribery conviction of Carlos Marcello of Louisiana. Hauser had also received thinly veiled admissions on tape from Marcello during the FBI's

<sup>\*</sup>The major disqualifying factors in Playboy's license application were the corporation's bribing of an official from the New York State Liquor Authority during the early 1960s, and the improprieties that led to the loss of Playboy's casino license in England in 1981. Also, the Elsinore Corporation, Playboy's partner, was part of the Hyatt hotel chain, owned by the Pritzker family, which had also been represented by Korshak.

BRILAB sting operation that he had been directly involved in the assassination of John Kennedy twenty years earlier.

During his testimony before the subcommittee, Hauser stated that Korshak was Accardo's contact to these corrupt union bosses from the Culinary Workers and the Laborers. Hauser explained, "Organized crime leader Tony Accardo, who I have known for many years as Joe Batters, told me on several occasions that he had sent Korshak to Los Angeles to represent the mob there."<sup>26</sup>

Prior to Hauser's testimony, Korshak had been sent a letter from the subcommittee, informing him that the Senate wanted him as a witness. Responding for Korshak was his attorney, Harvey Silets, who wrote: "After consultation with Mr. Korshak and a careful review of the contents of your letter, we wish to advise you, on behalf of Mr. Korshak, that he will not provide testimony, with or without a subpoena, based upon his constitutional privilege against self-incrimination."27

Hedging his bets between labor and management, Korshak had done legal work for the Hilton Corporation since the early 1960s on a case-by-case basis. After Conrad Hilton's son, Barron Hilton, took control of the business, Patrick Hoy, a vice-president of the General Dynamics Corporation,\* who was a close friend of both Hilton and Korshak, recommended that Korshak be kept on retainer by Hilton.

Hilton took Hoy's advice and retained Korshak. Between 1971 and 1984 Korshak had made over \$700,000 from Hilton alone. Korshak was chiefly responsible for handling some tax and real estate matters, as well as Equal Opportunity cases. Because of Korshak's association with the Culinary Workers Union in Las Vegas, Hilton claimed to have considered Korshak an adversary in Las Vegas labor relations cases.

Hilton had begun construction on a \$270 million hotel/casino in Atlantic City, scheduled to open in May 1984. Hilton applied for its casino license from the New Jersey Casino Control Commission. During the commission's preliminary inquiry, state investigators discovered Hilton's links to Korshak. In a report filed with the commissioners, the staff stated, "It is quite evident that over the years [Korshak] has made good contacts with very powerful politicians. . . . Korshak's list of past

<sup>\*</sup>Interestingly, General Dynamics, the nation's largest defense contractor, was owned by Colonel Henry Crown, for whom Korshak had done some unspecified legal work. While Hoy was a vice president of General Dynamics and Korshak was working for Crown, General Dynamics had engaged in fraudulent cost-overrun claims to the U.S. Navy. In 1984, when the Senate Judiciary Subcommittee began to investigate General Dynamics, it subpoenaed the Justice Department's internal records on the company. When Attorney General William French Smith repeatedly defied the committee, refusing to give it the requested documents, the subcommittee cited Smith for contempt of Congress. It is not known whether Hoy—who had earlier pleaded guilty to mail fraud in connection with a \$2 million bank fraud case—or Korshak appears in those secret reports.

and present associates reads like a who's who of prominent southern Californians. . . ."

The previous March, after Hilton officials realized that their Korshak connection could cause them some licensing problems, Hilton fired Korshak. Hilton, through its legal counsel, sent Korshak a letter, stating: "I appreciate very much your understanding regarding the action we feel we're forced to take in dissolving the longstanding relationship between you and Hilton Hotels Corporation. As I stated in our telephone conversation, we very much regret this situation. We feel, however, that we cannot risk jeopardizing in any way the huge investment we have committed to New Jersey. . . .

"You can rest assured that you continue to be held in high esteem and affection by those of us at Hilton who have had the privilege of having you as a friend and adviser."

In the midst of the opening round of testimony in July 1984, Barron Hilton received a barrage of hostile questions from the commission on his association with Korshak. Hilton said, "I wish to hell we would have never hired him, because I can see it's a very distinct problem here in the minds of you gentlemen about this fellow's integrity."

Questioned again about Korshak in November, Hilton stated, "I want to say that I certainly appreciate the concern that this commission has that any applicant be free of any type of association [with] an individual such as Mr. Korshak, and I can say that today we would not be involved in any fashion with Mr. Korshak, and as you are aware, we, this latter year, discontinued our relationship with the individual, and I have to agree with you that it should have been done before, rather than now."

Corporate officials added that had they known that Korshak was going to take the Fifth before the Senate Subcommittee on Investigations they "would have fired him on the spot."

Korshak, who was feverishly loyal to his friends and expected to be treated in kind, was livid when he heard about Hilton's statements about him. In retaliation, the secretive Korshak, who rarely puts anything in writing, wrote Barron Hilton a letter, dated November 29, 1984.

#### Dear Sir:

I find it extremely difficult to address you in any other fashion.

I read with interest your disparaging remarks about me to the New Jersey Gaming Commission. When did you discover that I was unworthy of being an attorney or that I was associated with characters that shocked your most decent sensibilities?

I have in my possession a number of letters from your staff extolling my virtues as an attorney and telling me how happy the hotels were with my representation of your corporation. Those letters were also sent to your office for your personal perusal.

I am sending them to you again today.

Was I in a sorry plight with you when I met you in New York and worked out a deal with Charlie Bluhdorn of Gulf & Western [who died in February 1983], giving you their airport hotel and the Arlington hotel to manage without you investing one penny, despite your offer to pay Gulf & Western some \$10,000,000 for a one-half investment in these hotels? If you recall, you will remember that I never billed you for my services in these matters. My fee ordinarily would be a very high one. Do you remember calling me in Las Vegas at 6 one morning while you were with Kirk Kerkorian and Frank Rothman [Kerkorian's chief executive officer at MGM-United Artists] for me to ask the [Las Vegas] unions involved not to strike you, namely Dick Thomas of the Teamsters and Bob Fox of the Engineers? As you well know, there was no fee involved.

You have caused me irreparable harm, and as long as I live I will never forget that. When did I become a shady character? I imagine when you were having difficulty getting a license in Atlantic City.

Very truly yours, Sidney R. Korshak

At the conclusion of the hearings, New Jersey gaming commissioner Joel R. Jacobson said, "In my judgment, the thirteen-year-long relationship of the Hilton Hotels Corporation with Sidney Korshak is the fatal link upon which I primarily based the conclusion that this applicant has not established its suitability for licensure in New Jersey.

"In September of 1971, Hilton retained Sidney Korshak as outside counsel, an association which lasted until March 1984, when it was finally terminated under conditions that themselves raised questions of suitability.

"Throughout that thirteen-year period, during which Mr. Korshak received over \$700,000 in fees and expenses, the publicity and notoriety about Mr. Korshak's unsavory reputation and associations with organized crime figures repeatedly swirled around his and Hilton's head."

Jacobson also raised *The New York Times* series on Korshak written by Seymour Hersh and Jeff Gerth. The commissioner asked, "How did Mr. Korshak respond to such scurrilous allegations? Did he mount a vigorous challenge? Did he descend upon *The New York Times* by rightly demanding a retraction and apology? Did he launch a \$50 million libel suit? No, he didn't. He did nothing. And, in fact, Hilton Corporation executives responded to the in-

formation contained in the articles with a corresponding equanimity. "Mr. Barron Hilton telephoned Korshak to offer sympathy for the bad publicity."

Hilton had said that after reading the series on Korshak, he sent his lawyer a letter of condolence. "Knowing that he was depressed about this publicity...," Hilton testified, "I dropped him a note. I personally am not aware about his guilt or association with the underworld. This is something that really I have no opinion about."

The commission rejected Hilton's bid on February 28, 1985. The refusal was solely based on Hilton's association with Sidney Korshak—whom the commission charged as being "a key actor in organized crime's unholy alliances with corrupt union officials and its pernicious efforts to frustrate the rights of working men and women by infecting legitimate unions, to rob their members' future by stealing the benefits they have earned in the past from honest labor."

Barron Hilton could only say, "I am shocked and stunned at the decision." He also vowed to appeal, adding that he was "confident that the overwhelming evidence in support of licensing of the Hilton organization will ultimately prevail."

When asked to discuss the difference between the Playboy and Hilton cases—and their associations with Korshak—Jacobson said that three of the five members of the New Jersey commission had voted to license Hefner, because they found "nothing sinister or improper in the one-time retention of Sidney Korshak" by Hefner.

Jacobson continued, "Hefner paid Korshak \$50,000 seemingly simply for the purpose of having Korshak explain Hefner's position to Wasserman, and to arrange a meeting with Wasserman, not Universal's attorneys, to discuss a possible settlement of the lawsuit. However, Korshak's mission failed. He apparently kept the \$50,000, a high price . . . for simply trying to arrange a meeting and deliver a message. No commissioner drew the inference this was a venal influence-peddling scheme. Hefner testified that he engaged Korshak's services only because he thought Korshak could influence Wasserman. . . .

"Hilton clung to its relationship with Korshak until March 1984, long after everyone was fully aware of Mr. Korshak's reputation and associations, and after warnings had been issued by both the Nevada Gaming Board and the Appellate Division of the New Jersey Superior Court."

On January 22, 1984, William French Smith announced that he was resigning as attorney general. Almost immediately, the White House

announced that Smith would be replaced by Reagan's chief of staff, Ed Meese, who had co-chaired the California Attorney General's Organized Crime Commission that named Korshak as one of ninety-two underworld figures operating in the state.

Viewed as a "tough cop," Meese proved during the transition period to be more of a politician. His support of Jackie Presser's appointment as a "senior economic advisor" to the Reagan transition team was viewed as nothing less than a political payoff for Teamsters support for Reagan during the 1980 election campaign. And, on December 5, 1980, before any charges had been alleged, Meese had met personally with FBI director William Webster, asking whether the bureau had any information that Ray Donovan was associated with organized crime.\*

Archibald Cox, the incorruptible chairman of Common Cause, who was fired as the Watergate special prosecutor by President Nixon, said that Meese was "blind to the ethical standards and obligations required of a public official," and thus was "not fit" to be attorney general.

Meese's appointment was held up while special prosecutor Jacob Stein investigated charges that Meese had obtained federal jobs for friends who had helped him out of financial trouble. In particular, Meese had failed to disclose a \$15,000, interest-free loan he received from a close friend. Another lingering concern was a \$15,000 investment by the Meese family in a firm that invested \$100,000 in a Nevada slot machine business. Because the company received funds from the Small Business Administration, it was prohibited by law from investing in any gambling enterprise.

Meese was eventually cleared by Stein of any criminal wrongdoing and was confirmed by the Senate, 63–31, to become attorney general on February 23, 1985—over a year after Smith had announced his resignation.

Earlier, in late 1983, Meese met with Teamsters president Jackie Presser—who, like Korshak, was also receiving hands-off treatment by the Reagan administration—to discuss the union's problems with the deregulation of the trucking industry.†

At the time of the Meese-Presser meeting, Presser was the target of a federal investigation in a \$165,000 union embezzlement case in Cleve-

<sup>\*</sup>The Meese-Webster meeting was held eleven days before Donovan's nomination. Meese asked Webster to inform him as to whether "checks [on Donovan] reveal any allegations relating to organized crime"—before the bureau conducted its Full-Field investigation of Donovan. †In June 1983, Meese had attended a celebration for Presser at the Georgetown Club in Washington. Also in attendance at the party for Presser were Secretary of Labor Ray Donovan, former Reagan political adviser Lynn Nofziger, U.S. senators Robert Dole and Ted Stevens, and Congressman Jack Kemp, a presidential hopeful.

land. Two of Presser's associates, Allen Friedman and Jack Nardi, either had been convicted or had pleaded guilty for their roles in the scheme. Friedman was also Presser's uncle and was plea-bargaining with the government in return for his testimony against his nephew.

On May 31, 1984, federal attorneys in Cleveland decided to ask approval from the Justice Department for a criminal indictment against Presser. A week later, it was revealed that Presser had been an informant for the FBI since the 1970s. Suddenly, the case against Presser stalled.

On October 1, 1984, Ray Donovan was indicted by a New York grand jury on charges of grand larceny and fraud in connection with the city's subway project, on which his construction company was a major contractor. Donovan pleaded innocent but immediately took a leave of absence from his Cabinet position.

On February 26, 1985, William Webster and the FBI—working in cooperation with the New York Organized Crime Task Force, headed by Ronald Goldstock—arrested the heads of the five Mafia families in New York, as well as four of their top aides. The nine mobsters were charged with fifteen counts of conspiracy and operating "through a pattern of racketeering activity," which included murder, labor racketeering, and extortion, according to the indictment.

On April 23, 1985, two months after Meese's confirmation and a month after Ray Donovan resigned as Secretary of Labor,\* Presser—who had promised to lead the Teamsters into a new era of responsible unionism—took the Fifth Amendment fifteen consecutive times before the President's Commission on Organized Crime, refusing to answer questions about his personal finances, his ties to organized crime, his union goon squads, and an array of other activities. That same day, a federal judge in Chicago ordered former Teamsters general president Roy Williams to begin serving time in a federal prison hospital† for conspiring to bribe Senator Cannon.

In late July, Justice Department officials testified before a federal grand jury in Cleveland, which was investigating Presser. They convinced the grand jury to cease its investigation of Presser on the basis of his role as a federal informant. The decision not to prosecute Presser

<sup>\*</sup>After a five-month leave of absence from the Labor Department awaiting trial, Donovan decided to resign after his pretrial motion to dismiss the 137-count indictment against him and his nine co-defendants was rejected. President Reagan, upon receiving Donovan's resignation, issued a statement saying that Donovan "has not been convicted of anything" and that he "leaves the cabinet with my friendship and heartfelt gratitude."

<sup>†</sup>Williams was suffering from severe emphysema and heart problems.

was made by the chief of the Justice Department's Criminal Division, Stephen S. Trott, a former deputy district attorney in Los Angeles, who had later become the U.S. attorney in Los Angeles.

Attorney General Meese insisted during an appearance on ABC's Good Morning America on August 6, 1985, that he had not taken part in the decision to drop the case against Presser, "because we wanted to avoid any possibility of anyone claiming that there was any political interference," Meese said. "It's very clear [that] at no time was there any political influence or any undue influence."

On August 25, The Washington Post reported that the FBI had authorized Presser "to make payments to 'ghost employees' on the union payroll and did not inform the Justice Department of the arrangement, thereby dooming the department's thirty-two-month investigation of Presser." The report added that FBI Director Webster was "not told that the FBI was not only using Presser as an informant, but was also allowing him to engage in criminal activity. . . ."\*

As a consequence, Presser's uncle was released from prison—without ever testifying against Presser as he had offered to do. Later, the charges against co-conspirator Jack Nardi, as well as his guilty plea, were also dropped.

Another surprise came when former Teamsters president Roy Williams flipped and turned state's evidence against several former colleagues in the underworld. Williams's testimony came during the trial in Kansas City of fifteen mobsters accused of skimming at several casinos in Las Vegas. The indictments had come as a result of an FBI investigation that began in 1978. Williams, who had been the third Teamsters president imprisoned for corruption in office, was the first to testify against his former cohorts.

Before his testimony at the trial, Williams was interviewed by Stephen M. Ryan, deputy counsel of the President's Commission on Organized Crime, on September 16. Ryan asked Williams about Presser's ties to the underworld. Ryan asked, "Would you describe your conversation with Jackie Presser that indicated to you that at times he had either a relationship or a problem with the mob?"

"He was in San Francisco one time after he became vice-president,"

<sup>\*</sup>In early April 1986, a new grand jury was convened in the Presser case. The investigation concentrated on whether three FBI agents had made false statements to the Justice Department about Presser's role as an FBI informant. Consequently, Presser faced renewed federal charges about his activities, particularly those stemming from the Cleveland fraud case. Under extreme political pressure, Jackie Presser was indicted on May 16, 1986; on May 21, he was reelected president of the Teamsters Union.

Williams replied, "and I was getting a lot of static, as the president of the union. 'Why all of the big thugs around Jackie Presser?' And I'm not arguing that they were good guys. I don't know whether they was [sic] connected with anything or not, other than they were members of the Teamsters. And I got Jackie in a corner and asked him, because at least I was trying to find an answer for some of these questions.

"And he told me that the Mob was split in Cleveland, and he's afraid that he picked the wrong side."

During the interview, Williams also confirmed Fratianno's previous statements that Sidney Korshak controlled Teamsters vice-president Andy Anderson. "And Sidney Korshak is an individual who was believed, by you, to be a person associated with the Mob?" Ryan asked.

"Yes," William replied.

"Or a member?"

"Yes."

When asked by *The Washington Post* in mid-November 1985 whether Presser would continue to have a relationship with the Reagan administration,\* Edward J. Rollins, the Reagan/Bush campaign director in 1984, replied that Presser was "a very good friend and will remain that." He added that Presser "put his money where his mouth was." <sup>28</sup>

On November 27, the Las Vegas skimming trial continued in Kansas City with the testimony of former Mafia boss Angelo Lonardo of Cleveland, who, like Williams, had also become a federal witness. Lonardo told the court that he had helped persuade Chicago's top Mafia leaders Joey Aiuppa and Jackie Cerone to support the Presser bid for the union presidency in 1983. When the Chicago mobsters balked at the idea, another Cleveland mob leader, Maishe Rockman, responded, "Jackie Presser is okay, and I can handle him."

According to an FBI summary report, dated October 28, 1983, "Rockman told Lonardo a story that was related to him by Presser. Presser was in Washington, D.C., at a gathering attended by Roy Williams, the President of the United States, the First Lady, Jackie Presser, and Presser's wife. When the President greeted Williams, he was merely cordial to him. When the President greeted Jackie Presser, both he and the First Lady hugged Presser and showed a great deal of personal attachment to Presser. The First Lady kidded Presser about

<sup>\*</sup>On October 21, 1985, during a speech before a meeting of U.S. attorneys, Reagan said, "I'd like nothing more than to be remembered as a president who did everything he could to bust up the syndicates and give the mobsters a permanent stay in the jailhouse."

his need to lose weight. This was all done in full view of Roy Williams, who, according to Presser, was visibly hurt."

Presser was to be subpoenaed to testify at the skimming trial but told the court through his attorney that he would take the Fifth Amendment if forced to take the stand.

Two weeks later, President Reagan appointed a top associate of Presser, Charles L. Woods, a California Teamsters official, to fill a vacancy on the National Mediation Board at a salary of \$72,300 a year. The board was responsible for settling labor disputes in the railway and airlines industries. Presser had personally recommended Woods to Reagan.

A 977-page pretrial deposition by Senator Paul Laxalt\* in October 1985 was leaked to the press during the discovery process in Laxalt's \$250 million libel suit against the McClatchy Newspapers of California. In 1983, Pulitzer prize—winning reporter Denny Walsh of McClatchy's Sacramento Bee accused Laxalt's casino, Ormsby House of Carson City, of being involved in a skimming operation with organized crime figures. Refusing to be intimidated, the McClatchy Newspapers countersued. Under questioning by McClatchy's attorneys, Laxalt admitted to be either associated with or to have accepted campaign money from Delbert Coleman, Morris Dalitz, Allen Dorfman, and Ruby Kolod.

On Sunday, January 12, 1986, an article appeared under President Reagan's byline in *The New York Times Magazine* entitled "Declaring War on Organized Crime." Written by Reagan aide Tony Dolan, the article celebrated the "success" of the Reagan administration's war on the underworld. Reagan recounted some of his own experiences:

[Organized crime's] essential characteristics [are] not all that different from the face of organized crime a generation or two ago—a point on which I can cite personal experience. Like all too many Americans, I've seen the mob at work.

In the early 1940's, along with many members of the Hollywood community, I watched with deep concern as organized crime moved in on the motion picture industry, largely through a takeover of the stagehands' and projectionists' union, the International Alliance of Theatrical Stage Employees and Motion Picture Operators [IATSE], and an attempted move on the union to which I belonged, the Screen Actors Guild. . . . But through the commitment and efforts of people like my friend Robert Montgomery, then president of SAG, the mob's attempted infiltration failed.

<sup>\*</sup>In late August 1985, Laxalt announced that he would not seek a third term to the U.S. Senate. According to published reports, Laxalt had simply come to the conclusion that he would make more money working in the private sector.

Without ever mentioning the Teamsters Union or Las Vegas, Reagan added, "There will be no détente with the mob. It's war to the end. We mean to cripple their organization."

Two days after the article was published, the President's Commission on Organized Crime issued an interim report criticizing the Reagan administration for its close ties to the Teamsters Union, writing that "the appearance of impropriety" had been created. The Washington Post, in an editorial the following day, wrote, "The commission did not charge—and no evidence has been produced to show—that this administration has been corrupted by its ties to Mr. Presser. . . [However,] it creates . . . the appearance of wrongdoing that leads to an erosion of public confidence in the government's commitment to fight organized crime. The Presser case will hound the administration until a full explanation of this episode is made."

The commission report shook up the White House and the Justice Department so badly that Attorney General Meese called a press conference to defend the White House-Teamsters relationship, saying that he did not see anything improper about it. Meese added that "at no time have I, nor, to my knowledge, any member of the administration, done anything which was designed to assist or aid anyone involved with organized crime. The fact that people did meet with labor leaders was certainly not designed or intended to in any way interfere with the proper investigation of organized crime."

Despite the commission's criticism of the White House ties to the Teamsters, its 222-page final report, entitled "The Impact: Organized Crime Today," was a disappointment when it was released in April 1986. Over half of the eighteen commissioners filed supplemental views or dissenting opinions on the report. In its defense, Chairman Kaufman said that the commission had "directed its searchlight on a few dark places, which will receive more attention than in the past." However, dissenters on the commission charged that too many "dark places" had been ignored. "Poor management of time, money, and staff has resulted in the commission's leaving important issues unexamined. . . . The true history of the commission . . . is a saga of missed opportunity."

One commissioner was asked why Korshak's name had not appeared in the final report. He replied, "That's a sensitive area. Korshak did come up in a couple of interviews and in one of the staff reports. But there was dissension about him throughout the life of the commission. . . . Several of us wanted to highlight him, particularly since he played such an important role in the Hilton hearings in Atlantic City. But it

was just not meant to be. There were forces that didn't want Korshak touched. So the commission just rounded up the usual suspects."

Another commissioner went further, citing a nine-hour meeting prior to the release of the final report. "Leaving Korshak out of the final report was no accident. A conscious decision was made to leave out any reference to him, and we were told about it at that meeting. It was too late to do anything about it. We [the commissioners] really never had a chance to see the final version of the report before it was released. . . . I felt that there was pressure to keep Korshak out. And where that pressure came from, well, your guess is as good as mine."

As American conservatives become more and more disenchanted with the prospects of a George Bush or a Jack Kemp as their next presidential candidate, the search continues for another Ronald Reagan. No less than three prominent newspaper columnists agreed that Paul Laxalt is being seriously considered to champion the Republican Party in 1988. Lou Cannon wrote, "There are conservatives who see Laxalt as a potential successor to Reagan, despite the inherent difficulties of being a senator from Nevada." Mary McGrory revealed that Laxalt "has told those urging him to get into the race that he will address the question when he gives up the chairmanship of the Republican Party [in 1987]. But he's thinking about it, and the right is yearning." George F. Will stated that Laxalt was "waiting in the wings—not just waiting, actually pacing restlessly and pawing the dust."

Perhaps Reagan himself supplied an answer for his right-wing colleagues on March 3, 1986, when he spoke of his "best friend," Senator Paul Laxalt, at a \$1,000-a-plate dinner given in Laxalt's honor by conservative Paul Weyrich's Free Congress Political Action Committee:

"As most of you know, Paul [Laxalt] and I were elected governors of our respective states at about the same time. They say we started even. I had California, with one of the biggest economies of the nation. Paul had Nevada and Howard Hughes . . . There were those who said a straight shooter like Paul could never make it in Washington. But sure enough, Paul has disposed of problems here just as [easily] as he disposed of them in Nevada. He had the best possible training for Washington—as a rancher and a herder: They have exactly the same sort of disposal problems that we have."

Then, seemingly in an emotional plea, Reagan beckoned to his followers, "Look to the son of the high mountains and peasant herders,

to the son of the Sierra and the immigrant Basque family. Look to a man, to a friend, to an American who gave himself so that others might live in freedom."

President Paul Laxalt? Ronald Reagan, Lew Wasserman, and Sidney Korshak would probably be the first to say that stranger things have happened. And, somehow, there would be a symmetry to it all.

Dan E. Moldea Washington, D.C. May 22, 1986

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The Saturday Evening Post

SHOW

Television

Time

Variety

The Village Voice

The Wall Street Journal

The Washington Post

The Washington Star

# **INDEX**

Bioff, Willie (cont.) Chesler, Louis A., 221 IATSE and, 4-5, 24-28, 35-37, 65, Chicago, Ill., organized crime in, 12-15, 67, 69, 89-90, 112, 226 20-24, 336-37 political associates of, 118-19 Chicago Crime Commission, 39, 84, 337 Bishop, Harold Eames, 41-42, 48-49 Chicago Sun-Times, 243 Blacker, Fred ("Bugs"), 23 Chicago Tribune, 136 blacklist, 73-75 Cinema International Corporation Blakey, G. Robert, 235, 242 (CIC), MCA as joint owner of, Bland, George, 231 267-68, 283 Circella, Nick, 23, 25, 37n Bluhdorn, Charles G., 279, 288 Blumberg, Nate J., 26, 220 City Paper (Moldea and Goldberg), Blumenthal, Sid, 333 167n Brazil, 311-12 Clark, Ramsey, 247 Brewer, Roy, 65-68, 71-75, 332 Clark, Tom C., 33-34, 58, 66 Bridges, Harry, 67 Clegg, Hugh, 78 Briguglio, Salvatore, 300 Cleopatra, 233 Clift, Montgomery, 152-53 Broderick, Helen, 60 Brown, Edmund ("Pat"), 136-37, 232, Coca-Cola Bottling Company of Los 238-39, 253 Angeles, 283 Brown, Jerry, Korshak and, 284-86, Cochrane, Robert H., 26, 220 Coffey, Gordon, 53 288-91 Browne, George, 23-24 Cohn, Harry, 26, 28, 74, 88-90, 138 IATSE and, 24-28, 35-37, 65, 67, 69, Cole, David L., 144 89-90, 112, 226 Coleman, Delbert, 248-50, 262, 291 Buchalter, Louis ("Lepke"), 24, 37n Collins, Harold F., 49 Buchanan, James M., 334-35 Colosimo, "Big Jim," 20 Bureau of Alcohol, Tobacco, and Columbia Broadcasting System (CBS), Firearms, 319-20 33, 97-98, 126, 128, 130-31, Bush, George, 296, 299, 322, 331-32 149-50, 193-94 Butler, Paul, 137 Columbia Pictures, 26, 46, 88-89, 138 Columbia Savings and Loan cable television, 273, 306-307, 309 Association, MCA's ownership of, California: 238 organized crime in, 285-86 Committee to Reelect the President Reagan as governor of, 1, 7, 239, (CRP), 266–67 245, 256–57, 258–59, 266–67, 293 Commonweal, 69, 72 Reagan's 1970 gubernatorial communications industry, deregulation campaign in, 8, 258-59 of, 306-307 Cannon, Lou, 223, 256, 349 Condon, Eddie, 12, 13 Capone, Al, 12, 15, 20-24, 121 Conference of Studio Unions (CSU), IATSE vs., 65-73 Carbo, Frankie, 85–86 Carey, Estelle, 37n Connally, John, 297 Carter, Jimmy, 8, 291, 306 Costello, Frank, 87-88, 105, 117 Covey, T. R., 48-49 organized crime attacked by, 318, 324, 328-29 Cox, Archibald, 343 Wasserman and, 278, 286, 288, 299 Casey, Pat, 25, 70, 85, 89 Dailard, Wayne, 42-43, 48-49, 56 Daily Variety, 35-36, 153-54, 167n, Casey, William, 294-95, 301 Castro, Fidel, CIA-Mafia's planned 212nDales, John, 101, 102, 141-42, 163, assassination of, 231-32, 235, 246, 276 174, 182 Dalitz, Morris (Moe), 24, 226, 244, 246, CBS Artists Bureau, 33, 55 248, 297, 336 Cermak, Anton, 21-22 D'Andrea, Philip, 24n, 88 Chandler, George, 101 Danny Dare Review, 33-34 Chasin, George, 206 Cheshire, Maxine, 303 Dare, Danny, 33-34

Dark Victory, 62	of 1972, 266
David, Saul, 305–306	of 1976, 275–76, 278
Davis, Bette, 30, 62n	of 1980, 8, 292–99
Davis, Loyal, 81	of 1982, 325–26
Death Valley Days, 237, 239	of 1984, 328, 332–34
Decca Record Company:	Ellington, Duke, 13, 32, 43-44
MCA's purchase of, 6, 205-206, 209,	Emerson, Ryan Quade, 318
210–15, 219–20	English, Glenn, 331
Universal purchased by, 104, 131,	Everett, Marjorie, 288-90
205, 221	, ,
"Declaring War on Organized Crime"	Fabricant, Geraldine, 312-13
(Reagan), 347-48	Factor, John ("Jake the Barber"), 120,
"Defense of Organized Crime, A?"	226–27
(Buchanan), 334-35	Max Factor Company, 120-21
DeLaurentiis, Dino, 286	Federal Bureau of Investigation (FBI),
Democratic National Committee, 5,	2, 74, 117, 315–17
136–37, 286, 288	CRP investigated by, 266-67
Democrats, Democratic Party, 38, 87,	Korshak investigated by, 121, 134,
135, 236, 239, 258, 332–33	137–38, 225–29, 232
Denker, Henry, 109, 265-66	MCA investigated by, 33-34, 54-56,
DePalma, Gregory, 281-82	93, 103, 132–33, 146 <i>n</i> , 147–48,
Des Moines Register, 61n	154, 163–65, 213
Deverich, Nat, 45	organized crime investigated by,
Dewey, Thomas, 39	242–44, 281–82, 290, 301, 318–19,
Disney, Stanley, 113, 211, 214	321–23, 3 <del>44–4</del> 5
Disney, Walt, 66, 69–70	Reagan as informant for, 5, 78-79
Doherty, Frank P., 49	Federal Communications Commission
Dolan, Tony, 347	(FCC), 33, 128–29, 146, 155–57,
Dome, Louis (Pacella), 282	306–307
Donovan, Ray, 298–301, 320–23,	Feldman, Charles, 100
327–29, 343–44	Ferraro, Geraldine A., 333–34
Doonesbury, 290–91	Fielding, Fred, 301, 319, 328
Dorfman, Allen M., 116–17, 226, 260,	Fifty-seventh Madison Corporation, 256
290, 326–27 Dorfman Boul ("Pad"), 116, 17	film industry:
Dorfman, Paul ("Red"), 116–17	Communist influence in, 36–37,
Dorsey, Tommy, 17, 45, 53, 57–58 Douglas, William O., 247–48	66–67, 70, 72–75, 78–79, 81–82
Drew, Elizabeth, 299	conglomerates in, 251–55
Drug Enforcement	financial disasters in, 233–34, 257–58
Administration (DEA), 321–22	HUAC investigation of, 72–74
Duchin, Eddy, 16	MCA as artist representative in, 30-32, 45-46, 81, 92-93, 131,
Duffy, Ben, 108–109	148–54, 164, 206
Duffy, John, 329	MCA as producer and distributor in,
Dugger, Ronnie, 306–307	3, 5, 7, 8, 148–50, 176, 205–206,
Dunne, George H., 69, 72	219, 221, 233, 258, 269–71, 310,
,	311
Eagle-Lion Studios, 83	monopolistic practices of, 46-47
Economics of Crime and Punishment,	organized crime's infiltration of, 4-5,
The, 334	24–28, 73, 86
Edwards, Blake, 151	Reagan as actor in, 5, 61-64, 79-80,
Eisenhower, Dwight, 231	109n, 183, 235
elections:	Reagan's gubernatorial decisions
of 1964, 235–36	beneficial to, 7, 253
of 1966, 238–39	strikes in, 26, 67-71, 89-91, 306
of 1968, 255, 257, 275, 286	
	see also specific studios
of 1970, 8, 258–59	see also specific studios Finch, Robert, 239

Glimco, Joey, 116–17, 121 Goetz, Bill, 92–93

Findlater, Jack, 264-65 Gojack, Mary, 296-97 Finley, Larry, 41-44, 48-49, 56, 113 Goldberg, Jeff, 167n Finley v. MCA, 48-50, 56, 114, 206 Goldblatt, Joel, 71n Firestone Tire and Rubber Company, Goldstock, Ronald, 344 Goldwater, Barry, 7, 118-19, 235-36 Goodheart, William R. (Billy), 4, Fitting, Paul, 42-44 Flanagan, James F., III, 338 15-16, 29-30 Fonda, Henry, 310 Goodman, Benny, 12, 13, 45 Ford, Frederick W., 146 Gottlieb, Bob, 254 Ford, Gerald, 275-76 Grable, Betty, 30 Ford Star Time Show, 150-51 Gradle, Harry, 15 Formosa, Johnny, 154 Grant, Cary, 153 Fowler, Mark, 306-307 Green, William, 68 Fox, William, 27 Greenbaum, Gus, 118-19 Foy, Brian, organized crime Greenberg, Alex Louis, 135-36 connections of, 61-62, 83, 88 Grim Reapers, The (Reid), 37n, 234n Foy, Eddie, Jr., 62 Guiness, Alec, 150, 221 Fratianno, James, 85, 232, 281-82, 298, Gulf & Western, 279, 288-89 Guzik, Jake ("Greasy Thumb"), 21, 38, 336-38 118-19, 121 Frederick Brothers Agency, 43-44, 48 Freedom of Information Act, 2, 320 Friar's Club cheating scandal, 230-31 Haber, Joyce, 273, 279 Haddock, George B., 56 Fricano, John, 166, 167-201 Friedman, Allen, 344 Halley, Rudolph, 87-88 Hansen, Victor R., 125, 132 Harding, Warren G., 25 Friedman, Maurice, 230-31 Furino, Fred, 323 Harlow, Jean, 24 Gambino, Carlo, 281-82 Hauser, Joseph, 338-39 Hays, Will, 25-26 Garner, James, 143-44, 314-15 General Accounting Office (GAO), Hayward, Leland, 45, 50 U.S., 317, 322, 327 Hayward-Deverich Agency, 32, 45, General Amusement Company, 32, 42-43, 57-58 Heflin, Van, 180 General Electric Theater, 7, 108-109, Hefner, Hugh, 284, 338, 342 Heidt, Horace, 45 149, 167, 203 cancellation of, 222-24 Hentoff, Nat, 279 in conflict of interest controversy, 6, Hersh, Seymour M., 278-79, 341 139-40, 143 Heymann, Robert, 261-62 MCA-Revue deal for, 194-98, Heymann, Walter, 71n, 261 Hill, Virginia, 85-86 200-201 Hilton, Barron, 339-42, 348 Reagan's article on, 114-15 Hitchcock, Alfred, 148-49, 270 in Reagan's grand jury testimony, 188-201 Alfred Hitchcock Presents, 149-50 Hodges, Joy, 61 Reagan's speaking tours for, 188, Hodkinson, W. W., 25 193, 199-200, 223-24, 235 Hoffa, James R., 246, 300 Genis, Samuel, 135-36 J. F. Kennedy's assassination and, Gergen, David, 319 Gerth, Jeff, 278-79, 341 Giancana, Sam, 154, 231, 274 Korshak and, 116–17, 118n, 134, Gilliam, Terry, 311-12 225-27, 229-30 Laxalt and, 259-60 Gioe, Charles, 5, 24n, 37-38, 61n, Hollander, Bernard M., 112-13 83-84, 91, 117n Glasser, Ira, 321 Hollings, Ernest, 326 Glaser, Joseph G., 14, 40, 117, 228 Hollywood Independent Citizens

Committee of Arts, Sciences and

Professions (HICCASP), 78

145-47, 149, 151, 155-58, 161, Hollywood Reporter, 36, 63-64, 75, 114-15, 153-54 202, 204–206, 210–16, 247, 254, Holmes, Oliver Wendell, 222 270, 277-78, 283, 306-307, 313 documents of, 18-19, 22, 23, 33, 46, home video rentals, 310-11 78, 81, 101, 133, 153, 186n, 222n Hoover, J. Edgar, 33-34, 132, 245, 322 MCA investigated by, 2-3, 6, 31-34, Hope, Bob, 142 42-44, 52-58, 111, 113, 117, House of Representatives, U.S.: 123-29, 145-54, 155-60, 161-63, Select Committee on Assassinations, 234n. 235 270, 272 Special Subcommittee on Labor, SAG investigated by, 113-14 71-72, 73Un-American Activities Committee, Kallen, Kitty, 30 Kalver, Roy L., 112 5, 72-75, 132 Karl, Harry, 138, 230 Hover, Herman D., 113-14 Hubler, Richard C., 202, 238-39 Karl, Joan Cohn, 138 Hudgins, Willie L., 272-73, 277 Katleman, Beldon, 107-108, 229, 231 Hugel, Max, 295-96, 301 Katz, Michael, 120 Hughes, Howard, 104-105, 231, 274 Katz, Sam, 23-24, 26, 28 in Las Vegas, 245-48 Kaufman, David, 212n Laxalt and, 245-47, 259 Kaufman, Irving R., 328, 348-49 Humphreys, Murray, 116-17, 232 Kazan, Elia, 74 Kearns, Carroll D., 72, 73 Kefauver, Estes, 87, 90-92, 135, 158 Illinois Liquor Control Board, 227, 289 "Impact: Organized Crime Today, Kennedy, John F., 6, 154, 216, 222, 276 The," 348 organized crime implicated in Internal Revenue Service (IRS), 21, 23, assassination of, 234-35, 338-39 27, 35, 39, 106, 134, 158, 268, 315, Kennedy, Joseph P., 26 319 Kennedy, Robert F., 6, 119-20, 155-56, 161, 164–65, 207, 216, 259–60 International Alliance of Theatrical Stage Employees (IATSE), 6, 23, Kenneworth Music, 15 100, 141 Kerkorian, Kirk, 252, 267-68 CSU vs., 65-73 Kibre, Jeff, 35, 67 organized crime's control of, 4-5, Killers, The, 235 24–28, 35–37, 65–67, 69, 72, 112, Kingmaker, The (Denker), 265-66 226-27 Kintner, Robert, 126-27, 147, 158 Wasserman honored by, 269 Kissinger, Henry A., 273 International Business Machines, Inc. Kleindienst, Richard, 338 (IBM), 288, 310 Knoedelseder, William, 317 International Management Associates, Kolod, Ruby, 244 Ltd., 211 Korshak, Harry, 279-80 International Pictures, 26, 220 Korshak, Judith, 228 Korshak, Marshall, 38, 91, 134, 227-28 Jackson, Donald L., 75 Korshak, Sidney R., 2, 6, 91-92, Jacobson, Joel R., 341, 342 141–42, 240*n*, 303, 334–50 Jaffe, F. Filmore, 48 in CIC negotiations, 268 Jaffee, Henry, 126 Fratianno's testimony on, 336-38 James, Harry, 17, 30, 57 government investigations of, 7, Jaws, 271 38-40, 91-92, 119-21, 134-35, jazz, organized crime's interest in, 137–38, 225–29, 232, 268 12-13, 15 Hilton and, 339-42, 348 Johnson, Lyndon B., 236 Hoffa and, 116-17, 118n, 134, Jones, Jerry, 48–49 225-27, 229-30 Jones, Lindsey ("Spike"), 31-32, 34 J. Brown and, 285-86, 288-91 Justice Department, U.S., 33, 106, 242 in Las Vegas, 225-27, 229-30, Antitrust Division of, 31-33, 57-58, 246-50, 262, 291 93, 103, 110, 117, 125–26, 132, Los Angeles Dodgers and, 228-29

Korshak, Sidney R. (cont.)

New York Times series on, 8, 278-80, 301-302 341 - 42Reagan's presidential campaigns and, organized crime connections of, 1-2, 7, 292, 296, 301–302 5, 7-8, 37-40, 61*n*, 70-71, 84, 86, as Reagan's successor, 349-50 116-17, 119-21, 225-27, 232, senatorial campaigns of, 262-63, 278-80, 285-86, 290, 339, 343, 346 296-97 political connections of, 5, 8, 137, Laxalt, Peter, 261-62 285-86, 288-91, 348-49 Lea Act, 52 Reagan's 1970 gubernatorial bid and, LeRoy, Mervyn, 81-82, 228 8. 259 Levin, Philip, 288-89 in RKO purchase, 104-105 Lewis, Jerry, 3 Lewis, Tom, 329-30 Stein and, 40 Teamsters and, 116-18, 134, 290, 346 Lindheimer, Ben, 288 as a tolerable crime figure, 335, 343, Linsk, Eddie ("Killer"), 30 348-49 Lipsey, M. B., 50 Wasserman and, 278, 279, 284-85, Loevinger, Lee, 155-57, 161-66, 206, 286, 291, 338, 342 210-11, 213, 215-16 Korshak, Ted, 38-39 Loew, Marcus, 27 Kostelanetz, Boris, 38 Lombardo, Guy, 13, 16, 30 Kramer, Karl, 99, 110 Lonardo, Angelo, 346 Kramer, Stanley, 152-53 Long, Baron, 31 Krim, Arthur B., 83 Los Angeles Dodgers, 228-29 Kruse, Leslie ("The Killer"), 86 Los Angeles Herald Examiner, 285 Los Angeles Strike Force Against Labor Department, U.S., 321, 327 Organized Crime, 335-36 Laemmle, Carl, 25, 26, 220 Los Angeles Times, 273, 290-91, 317 Luciano, Charles ("Lucky"), 20-21, LaMonte, John, 315-17 Lamour, Dorothy, 30 24n, 57, 85-86 Luckett, Edith, 81 Lansky, Meyer, 20-21, 85-86, 221, 248, 289 Laskin, Paul, 158, 162 McCann, William E., 301 Lastfogel, Abe, 14 McClellan, John L., 119, 121-22 McCormack, John, 249 Las Vegas, Nevada: "Chicago group" in, 225, 229 McCormick, Paul J., 49-50, 56, 114 Korshak's activities in, 225-27, McDevitt, Barney, 42 229-30, 246-50, 262, 291 McDonald, Billy, 44 McGrath, James M., 113 organized crime's activities in, 242-50, 282, 318-19, 337, 345, 346 McGrory, Mary, 349 Mafia, see organized crime Reagan's job offers in, 5, 107–108 Magnuson, Warren, 112-13, 156 Las Vegas Sun, 245 Laurel and Hardy, 34 Maheu, Robert, 231-32, 245-46 Maloy, Tom, 24, 39 Laxalt, Jackie Ross, 243-44 Laxalt, Michelle, 311 Marcello, Carlos, 234, 298, 338-39 Laxalt, Paul, 243-47, 311, 325, 331 Martin, David, 197 Masselli, Nat, 323, 329 casino of, 261-63, 275, 347 Masselli, William, 320, 323, 329, 333 gubernatorial campaign of, 244-45 Mathes, William C., 209-11 Hoffa and, 259-60 Maury, George, 31-34 Hughes and, 245-47, 259 Mayer, Louis B., 27n, 60, 79 libel suit of, 347 Nixon and, 259-60 MCA: agents of, 4, 51, 127-28, 222 organized crime and, 7, 244, 261, 297, 318–19, 329, 347 anonymity of, 3-4 bands represented by, 16-19, 31-34, Reagan's friendship with, 245, 41, 43–45, 48–49, 53–56 275–76, 349–50

Reagan's presidential appointees and.

33, 43-44, 52-54, 103, 123-24, competition of, 32, 51, 127-28, 133, 127-28, 133, 221 148 as conglomerate, 3, 49, 53, 56-57. Morton, Ferdinand ("Jelly Roll"), 11 Morton, Moe, 285-86 204 Motion Picture Alliance for the corporate reorganization of, 145, Preservation of American Ideals, 162-64 66-67, 74 defenders of, 153 Motion Picture Operators Union, 24, 39 early employees of, 29-30 Motion Picture Producers and "employment contracts" of, 204 exclusive contracts of, 15-16, 31-34, Distributors of America 42-45, 48, 55, 169-70 (MPPDA), 25–27, 70, 85, 88 failures of, 7-8, 264-65, 272-73 Motion Picture Producers Association, fictionalized account of, 265-66 27, 35 film libraries of, 124-25, 140, 142-43 Motion Picture Technicians Committee, financial situation of, 110, 125-26, 127, 219n, 253, 267, 271, 282, Muhl, Edward, 233 Mullen, Francis ("Bud"), 321-22, 308-310, 312 founding and rise of, 4, 15-18 331-32 grand jury investigations of, 6, 55, Murphy, Betty, 300 Murphy, George, 235 161-66, 167-201 Murret, Charles, 234 lawsuits filed against, 2-3, 6, 41-42, 48-50, 55, 113-14, 163-65, 204, Mutiny on the Bounty, 233-34 207, 208, 239–40, 272–73, 314–15 other agencies raided and absorbed National Broadcasting Company by, 30-31, 45, 54, 55, 62, 168 (NBC), 13, 32-33, 97-98, 130-31 "package deals" of, 111, 124-25, 147, MCA's sweetheart relationship with, 150, 169-70, 176-77 126-27, 147, 149-50, 157-58 National Gambling Information Center, Reagan represented by, 1, 5, 62-63, 79-80, 101, 139, 143, 168-70, 182, 246 187-90, 196, 198-99 National Labor Relations Board, 35, 69, Reagan's financial ties with, 1, 2, 5-6, 144, 172, 300 105-106, 199-201, 239-40 National Mediation Board, 347 Nelson, Harmon, 30 studio real estate deals of, 131-32, 148-49 Nemerov, Bernard, 261-62 MCA Records, 315-17 New Jersey Casino Control MCA-SAG agreements, Reagan's role Commission, 338, 339-42 in, 2, 5-6, 101-104, 105, 139-43, Newman, Paul, 269 159-60, 167-201, 202-203 New Republic, 333 Meany, George, 141 New York Jets, 236-37 Mechling, Tom, 246 New York Organized Crime Task Meese, Edwin, 257, 285, 299, 300, 321, Force, 344 342–45, 348 New York State Liquor Authority, 227 Meiklejohn, William, 61-62, 147 New York Times, 8, 29-30, 71n, 91, William Meiklejohn Agency, 55, 168 205, 219n, 278-80, 300, 303, Metro-Goldwyn-Mayer (MGM), 26, 27, 312-13, 323, 325-26, 341 New York Times Magazine, 297, 347 141-42, 233-34, 252, 268-69 Miller, Arthur, 74, 75 Nitti, Frank, 21, 24, 37, 83, 135 Mitchell, John, 266-67 Nixon, Richard M., 72, 136, 255 Moldea, Dan E., 167n Laxalt and, 259-60 Mollenhoff, Clark, 61n Reagan's defense of, 266-67, 276 Montgomery, George, 230 Stein and, 266 Montgomery, Robert, 36, 60, 64, 71, Nunn, Sam, 299, 321 114 Moretti, Willie, 57n Oliver, Joe ("King"), 12 William Morris Agency, 13-14, 29, 32, O'Malley, Walter, 229

Operation Prime Time, 282–83 Oppenheimer, Harold L., 293–94	Reagan's presidential campaigns and, 297-98, 332
business interests of, 12, 15, 20–22,	Reagan's transition team and, 299-300, 343
317–18	Presser, William, 226, 298
disorganized crime vs., 21, 334–35	Proxmire, William, 295
history and rise of, 20–28	Psycho, 148–49, 270
institutionalization of, 317–18	Ovelle Miles 205
Reagan administration's policy on,	Qualls, Mike, 285
317–34, 335–36, 347–48	quiz shows, government investigation
Reagan's 1980 presidential campaign and, 8, 294-98	of, 130–31
Reagan's presidential appointees and,	Rackmil, Milton, 141
300–303	Radio Corporation of America (RCA),
Organized Crime Review, 318	13, 32–33
Osterberg, Clyde, 24	MCA's merger negotiations with,
Oswald, Lee Harvey, organized crime	312–13
and, 234	radio industry, 13, 18, 32-33, 98
	Rangel, Charles, 335
Paramount studios, 128, 148-49, 162,	J. Arthur Rank Productions, 221
234, 283	Raskin, Hy, 204, 213, 216
film library of, 125–26, 140	"Rat Pack," FBI Surveillance of, 154
history of, 25, 26, 46	Reagan, Jack and Nelle, 60-61
Stein and, 80-81, 124, 159 Park, Arthur, 107, 109, 169, 188-92,	Reagan, Nancy, 5, 6, 107-10, 114, 174, 179, 181, 312
198	Reagan's first meeting with, 81-82,
Parsons, Louella, 64n	228
Parvin, Albert, 247–48, 250, 262	Reagan, Neil, 237
Parvin-Dohrmann Company, 247-50	Reagan, Ronald:
payola scandals, 131n, 315	actors' criticisms of, 103-104, 142-44
Penthouse, 336-37	autobiography of, 202, 238-39
Pepper, Claude, 331	birth and early career of, 60-62, 166
Petrillo, James Caesar, 33, 40, 52, 75,	on communism, 63-64, 72-73, 75
100, 224 <i>n</i> , 308	divorce of, 77–78, 79, 81, 99, 107
organized crime connections of, 22, 28	finances of, 1-2, 5-7, 62, 105-106, 240, 292
Stein and, 17-19, 22, 33, 102-103,	grand jury testimony of (Feb. 5,
159	1962), 6, 167–201, 202
N. V. Philips, MCA's venture with,	income tax records of, 6, 202-203,
264–65, 272–73, 277–78, 283,	293
310	military service of, 62–64, 78
Pidgeon, Walter, 100, 102, 144	political beliefs of, 7, 75–76, 222–24,
Pisello, Salvatore, 316–17	235–36
Playboy, MCA's suit against, 284, 338 Posner, Bernard ("Pepi"), 227	popularity of, 276 press coverage of, 293, 300, 307
Posner, Herman, 227	published articles of, 114–15, 347–48
Posner, Leonard, 113, 123–24, 147–51,	real estate deals of, 240-41, 255-56,
156–60, 161–65, 203–206, 209–14,	258–59
221	speeches of, 293-94, 297-98, 321,
Powell, Dick, 194-96	349–50
President's Commission on Organized	record industry, 13, 17, 98, 287, 315-17
Crime, 328, 330, 335, 344–45,	Redford, Robert, 269
348–49	Regan, Donald, 320
Presser, Jackie, 321, 327–28	Reid, Ed, 37n, 234n
government investigations of, 343-47, 348	Reid, Harry, 262–63 Republican National Committee, 7, 325
210	Trapesion removes committee, ,, one

organized crime and, 27, 28, 35-38 Republicans, Republican Party, 5, Schenck, Nicholas, 27, 28 235-36, 307, 349 Schowengerdt, L. N., 331-32 Revue-MCA-SAG letter agreement Schreiber, Taft, 1, 4, 29, 48-49, 50, 61, (July 23, 1952), 178, 182-86 Revue Productions, 115, 126 236 formation of, 99-101, 176-77 death of, 276-77 General Electric Theater and, 109, FBI on, 266-67 115, 143, 194-98, 200-201 FCC and, 146, 155-57 MCA's split off from, 162-64 in Reagan's gubernatorial campaigns, Reagan's partnership interest with, 238, 239, 255 Reagan's political philosophy and, 7. 189-90, 199-201 see also television industry, MCA as producer and distributor in television production and, 101, 108–109, 190–91, 196, 201, 237 Reynolds, Debbie, 230 Schroeder, Patricia, 332-33 Rio, Frankie, 23 Schumach, Murray, 205, 219n RKO Pictures Corporation, 26, 42, 46, Schweiker, Richard, 276 104-105 Screen Actor, 140 Robb, David, 167n Screen Actors Guild (SAG), 36, 64, 306 Robinson, George S., 88 AFTRA vs., 144, 170, 171-73 Robinson, Hubbell (Hub), 150 Rockford Files, The, 314 AMG and, 110, 113, 164-65, 171, 186-87 Rockman, Maishe, 346 Roen, Allard, 226 antitrust investigation of, 113-14, 207 ATP vs., 99-100, 173-74 Rogers, William P., 112 CSU vs. IATSE and, 6, 69-70 Rollins, Edward J., 346 Roosevelt, Franklin D., 21-22, 32, 97 history of, 59–60 labor-management relations of MCA Rose, David, 30 Roselli, Johnny, 83-86, 108, 337 and, 100-104, 108, 110, 156-60, CIA plot to assassinate Castro and, 162-66, 167-201, 202-203, 231-32, 246 206-207, 211 MCA's residuals settlement with, Hughes and, 246 IATSE and, 4, 25-26, 37, 70 139-43, 171-73, 178-201 as Senate hearing witness, 88-91 Reagan as president of, 1, 2, 5-6, 71-72, 75, 77-80, 98-99, 101-104, Ross, Brian, 286, 290 Ross, John Tom, 243-44 139-41, 143, 159, 171, 174-78 Rubel, A. C., 238 Reagan on board of, 64, 65, 109-110, Rubin, Stanley, 223-24 114-15, 171 Ruby, Jack, 234-35 rule 16-E of, 186 Rudin, Milton, 274-75 Seach, George Emerson, 230–31 Ryan, Stephen M., 345-46 Securities and Exchange Commission (SEC), 248-50, 294-95, 319 Myron Selznick Agency, 32, 45, 100 Sacks, Manny, 126–27 Senate, U.S.: Appropriations Subcommittee, 326 Sacramento Bee, 293, 347 Safire, William, 303 Budget Committee, 332 SAG, see Screen Actors Guild Government Affairs Subcommittee, St. John, Jill, 249, 268, 273 329 Salvatori, Henry, 238-39 Interstate and Foreign Commerce San Diego Exposition, 42 Committee, 156-57 San Jose Mercury News, 78 Judiciary Committee, 307, 311 Saphier, Jimmy, 30 Labor Committee, 320, 321, 323

Permanent Subcommittee on

Investigations, 338-39, 340

Select Committee on Improper

Activities in the Labor or

Management Field, 119-22

Saturday Evening Post, 56-57, 81

CSU vs. IATSE and, 67-68

Sawyer, Grant, 243-45

Scalise, George, 39

Schenck, Joseph, 60

Special Committee to Investigate	general talent sought by, 29-30, 132
Organized Crime in Interstate	Korshak and, 40
Commerce, 87-92	MCA's antitrust suits and, 42, 49-50
Subcommittee on Juvenile	Nixon and, 266
Delinquency, 158, 162	organized crime connections of,
Shales, Tom, 314	22–23
Shefferman, Nathan, 118, 119	Paramount stock held by, 80-81, 124
Sheinberg, Sidney, 267	159
embarrassments of, 311-12	Petrillo and, 17-19, 22, 33, 102-103
video discs and, 7-8, 265, 277, 287,	in Reagan's gubernatorial campaigns,
310	238, 239
Sherman Antitrust Act (1891), 32, 42,	Reagan's political philosophy and, 7,
46, 47, 112, 126, 207, 272, 313–14	223
Shore, Dinah, 230, 232	Reagan's tax shelters and, 292-93
Siegel, Bugsy, 20–21, 25, 37n, 85–86,	real estate deals of, 256
118, 242	resignation of, 267
Siegel, Herbert, 103	on television, 98
Silverman, Lean, 222, 24, 229	Westinghouse offer and, 253–54
Silverman, Leon, 322–24, 329	Stempel, Herbert, 130–31
Silverman, Maurice, 111	Stewart, Jimmy, 92–93, 222n
Simpson, Ross, 256 Sinatra, Frank, 57-58, 141, 154-55,	Sting, The, 269 Stone A1 33 34
259, 299	Stone, Al, 33–34 Stone and Lee, 33–34
organized crime and, 274-75, 281-82,	Stordahl, Alex, 58
302–303	Strike Force Against Organized Crime,
Sirigano, John, Jr., 128-29	U.S., 291, 318, 319
Sklarsky, Harry, 213-15	Sullavan, Margaret, 45
Skouras, Spyros, 36, 140, 233-34	Sullivan, Ed, 153
Smith, John, 39–40	Supreme Court, U.S., 47, 52, 80,
Smith, Sandy, 243	111–12, 114, 125, 307–308, 311
Smith, William French, 7-8, 240, 291,	Susman, Allen, 204-206, 208-209,
298–99, 301–303, 307, 342–43	212-15, 277-78
Reagan's war on crime and, 318-23,	Susskind, David, 148
325–26, 328–30, 332	Sweig, Martin, 249
Sony Betamax, 277, 283, 287, 310	
Sorrell, Herb, 67, 72, 73	talent bureaus, 4, 117
Speakes, Larry, 313, 323-24	history of, 13–19
Speech, The (October 27, 1964), 235–36	MCA as, 2, 6, 14–19, 75, 205–207,
Spencer Gifts, MCA's purchase of, 253,	208–12 To be By Av. 201–202
270 Spielhara Sanna 260 271 210	Taylor, Reese, Jr., 301–302
Spielberg, Steven, 269, 271, 310	Teagarden, Jack, 44–45
Spilotro, Anthony, 326 <i>n</i> -27 <i>n</i> , 337	Teamsters Union: cabinet selections and, 299-301, 347
Spitz, Leo, 26, 28, 220 "Star-Spangled Octopus" (Wittels),	casino industry and, 246, 274, 318
56–58	Korshak and, 116–18, 134, 290, 346
State of the Union Address (January	organized crime's infiltration of,
25, 1984), 330	320–21, 327
Stein, Doris, 22, 308	Reagan's presidential campaigns and,
Stein, Jacob, 343	297–98, 328, 332, 348
Stein, Jeff, 253	Teitelbaum, Benjamin, 230-31
Stein, Jules, 1, 5, 7, 125, 142-43, 145,	television industry, 80, 98
236	early history of, 97-99
awards and honors of, 256, 283-84	government investigations of, 156-58,
bands booked by, 4, 14, 15-18, 22,	165–66
30	MCA as producer and distributor in,
death of, 308	3, 5, 93, 99–104, 108–109, 114–18,

124-29, 131-33, 146-53, 156-60, Universal-Television, see Revue 188, 222, 236-37, 258, 310, 311 Productions Unruh, Jesse, 258-59 MCA as syndicator in, 269-70, 313 Reagan as actor and producer in, 6, Van, Jerry, 335-36 109, 114–15, 139–40, 143, 149, Vance, Cyrus R., 128-29, 146, 157, 278n 168-70, 188-201, 203, 222, 223, Van Doren, Charles, 130-31 237 strikes in, 141-44 Vanished, 258 Variety, 115, 237, 311 see also Schreiber, Taft, television production and; Wasserman, Lew. Velie, Lester, 92, 137 television production and video discs, 4-5, 7-8, 264-65, 272-73, 277-78, 283, 287-88, 310 Thomas, J. Parnell, 72, 73n, 79 Thompson, Edward T., 145-46 Virginian, The, 236 Vogel, Joseph, 142, 233-34, 252 Thurmond, Strom, 307 Voloshen, Nathan, 249 Tieri, Funzi, 282 Tobey, Charles W., 87 Wall Street Journal, 104-105 Torres, Ed, 291 Walsh, Denny, 347 Torrio, Johnny, 20-21 Walsh, Richard, 65-66, 100, 141 Touhy, Roger, 22, 120 Walton, Kearney, Jr., MCA's contract Tourine, Charles ("The Blade"), 252 with, 31-34 Trafficante, Santos, 231, 234 Wanniski, Jude, 275-76, 296 Trans-Glamour tours, MCA's success Warner, Jack L., 3, 25, 83, 85, 87-88 with, 270 Warner Brothers, 25, 27, 46, 61-62, Treasury Department, U.S., 331 68-69, 79-80, 152, 168 Trott, Stephen S., 344-45 Warner Communications, 282 Trudeau, Garry, 290-91 Warren, Earl, 112 Truman, Harry, 58n Trumbo, Dalton, 153 Warren Commission, 235 Washington Post, 256, 303, 311, 314, Tuohy, Joe, 68 345, 346, 348 TV Guide, 131 Wasserman, Lew, 29, 50-51, 92-93, 145 Twentieth Century-Fox Film attempted firing of, 254 Corporation, 27, 36, 46, 140 Reagan's real estate deal with, on attempted takeovers of MCA, 272, 240-41, 255-56, 258-59 309, 312 Twenty-One, 130-31 awards won by, 267 Carter and, 278, 286, 288, 299 Korshak and, 278, 279, 284-85, 286, Ungar, Arthur, 35-36 United Artists, 25, 46, 83 291, 338, 342 U.S. v. Paramount, 112, 125, 307-308 parties thrown by, 273, 279, 284-85, U.S. v. Shubert, 111-12, 114 288, 291 United Studio Technicians Guild, 25 as powerbroker, 236, 252-53, 268-69 Universal Amphitheatre, 270-71 as Reagan's agent and confidant, 1, 5, Universal City, 219 62-63, 79-80, 101, 107, 139, 143, Universal Pictures Company, Inc., 25, 168, 187–88, 235 26, 46, 80, 92 Reagan's 1980 presidential candidacy Decca's purchase of, 104, 131, 205, and, 8 SAG and, 110, 162 history of, 25, 26, 220-21 on talent agency divestiture, 208-209, MCA's backlot purchase from, 212 131-32, 148-49 on talent packages, 205 MCA's purchase of, 3, 6, 7, 205-206, television production and, 99-101, 209, 210–15, 219–20 104, 108–109, 127–28, 131, 190–91, as movie factory, 271-72 195-96, 200-201, 222n, 237-238 post-1948 film library of, 212-16, 221 video disc project of, 4-5, 7-8,

see also film industry, MCA as producer and distributor in

264-65, 272-73, 288

Westinghouse offer of, 253-54

Waters, Victor, 33 Watt, James, 302 Weaver, Sylvester ("Pat"), 126, 127, 273 Webster, William, 322, 324, 327, 343, 344-45 Welch, John, Jr., 313 Weller, Fred, 54-55 Werblin, David ("Sonny"), 4, 29-30, 50, 126-27, 236-37, 289-90 Westchester Premier Theater, organized crime connected with, 281-82, 302 Western Governors' Conference, 245, Westinghouse Electric Corporation, MCA merger offer of, 253-55 Where's the Rest of Me? (Reagan and Hubler), 202, 238-39 Whittinghill, Charles, 126, 146, 204-205 Wick, Charles, 52-54 Wilkerson, Billy, 36n, 63-64 Will, George F., 349 Williams, Edward Bennett, 231 Williams, Roy L., 297-98, 320-21, 326-27, 344-47 Wilson, Woodrow, 13n

Wittels, David G., 56-58, 81
Wonders, Ralph, 42-44
Wood, George, 87-88
Woods, Charles L., 347
Wright, Robert L., 214-16
Writers Guild of America, West, 110, 207
Wyler, William, 220
Wyman, E 1gene, 232
Wyman, Jane, 30, 64, 77-79, 99, 107
Wynn, Stephen A., 312

Yorty, Samuel, 229, 239, 258 Younger, Evelle J., 285-86 Young Lions, The, 132

Zangara, Giuseppe, 21-22 Zanuck, Darryl F., 27, 233, 240 Zanuck, Richard D., 267 Zapple, Nicholas D., 156-58, 161 Ziffren, Paul, 5, 8, 135-37, 232, 240n, 291 Zukor, Adolph, 25 Zwillman, Abner ("Longy"), 24, 88, 135-36, 137

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JAMES BAMFORD

It is the most secret agency within the United States Government. For many years, the government denied that it even existed (and, according to a Washington joke, the initials NSA stood for "No Such Agency"). It was established not by law but by a top secret presidential memorandum that has been seen by only a very few officials. Yet it is many times larger than the CIA, spends many billions of dollars more per year, and its director is possibly the most powerful official in the American intelligence community. It is the National Security Agency.

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continued from front flap

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JAMES BAMFORD holds a Juris Doctor degree and specializes in investigative writing. He lives in Natick, Massachusetts.

Front jacket photograph of Menwith Hill installation by Peter Dunne, The Sunday Times of London.

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# The Puzzle Palace

# The Puzzle Palace

A Report on America's

Most Secret Agency

James Bamford

HOUGHTON MIFFLIN COMPANY BOSTON

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# FOR NANCY who endured my puzzle and sacrificed her palace

Any sound that Winston made, above the level of a very low whisper, would be picked up by it . . . There was of course no way of knowing whether you were being watched at any given moment . . . You had to live — did live, from habit that became instinct — in the assumption that every sound you made was overheard and, except in darkness, every movement scrutinized.

- George Orwell, 1984

Secrecy is the first essential in affairs of the State.

- Armand Jean du Plessis, Cardinal de Richelieu, chief minister to King Louis XIII

The King has note of all that they intend, By interception which they dream not of.

— William Shakespeare, The Life of Henry V, Act II, Scene 2

# CONTENTS

ACKNOWLEDGMENTS	xi
1. BIRTH	1
2. PRELUDE	5
3. ANATOMY	56
4. PENETRATION	118
5. PLATFORMS	155
6. TARGETS	236
7. FISSURES	280
8. PARTNERS	309
9. COMPETITION	338
10. ABYSS	364
APPENDIX	383
NOTES	386
ACRONYMS AND	
ABBREVIATIONS	437
INDEX	443

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# The Puzzle Palace

# BIRTH

AT 12:01 on the morning of November 4, 1952, a new federal agency was born. Unlike other such bureaucratic births, however, this one arrived in silence. No news coverage, no congressional debate, no press announcement, not even the whisper of a rumor. Nor could any mention of the new organization be found in the Government Organization Manual or the Federal Register or the Congressional Record. Equally invisible were the new agency's director, its numerous buildings, and its ten thousand employees.

Eleven days earlier, on October 24, President Harry S Truman scratched his signature on the bottom of a seven-page presidential memorandum addressed to Secretary of State Dean G. Acheson and Secretary of Defense Robert A. Lovett. Classified top secret and stamped with a code word that was itself classified, the order directed the establishment of an agency to be known as the National Security Agency. It was the birth certificate for America's newest and most secret agency, so secret in fact that only a handful in the government would be permitted to know of its existence. Even the date set for its birth was most likely designed for maximum secrecy: should any hint of its creation leak out, it would surely be swallowed up in the other news of the day — the presidential election of 1952.

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Thirty years later Mr. Truman's memorandum is still one of Washington's most closely guarded secrets. Those seven pages remain "the foundation upon which all past and current communications intelligence activities of the United States government are based," according to a senior official of the National Security Council. And in its defense against a 1976 lawsuit seeking access to the memorandum, the NSA argued successfully against the release of even one word: "This Memorandum remains the principal charter of the National Security Agency

and is the basis of a number of other classified documents governing the conduct of communications intelligence activities and operations, functions [and] activities of the National Security Agency." Even a congressional committee was forced to issue a subpoena in order to obtain a copy of the directive that implemented the memorandum.

Three decades after its birth the agency itself remains nearly as secretive and mysterious as when it emerged from the presidential womb. Its name is no longer classified information, but virtually all other details concerning the agency continue to be.

Newsman Daniel Schorr, in his book Clearing the Air, referred to the NSA as "one of the deepest secrets"; former CIA official Victor Marchetti has called it "the most secretive member of the intelligence community"; and Harrison E. Salisbury, the Pulitzer Prize-winning former editor and correspondent for the New York Times, has written that "not one American in 10,000 has even heard its name." Even Moscow's Literary Gazette once noted: "It has been observed that even the mouths of those in the 'intelligence community'... and literally of everyone, shut automatically at the slightest mention of NSA's secret operations, and their faces acquire a vacant look."

As a result of this overwhelming passion for secrecy, few persons outside the inner circle of America's intelligence community have recognized the gradual shift in power and importance from the Central Intelligence Agency to the NSA. Thus, it was to a surprised Congress that the Senate Intelligence Committee reported: "By the budget yardstick, the most influential individual [in the intelligence community] is the Director of NSA (DIRNSA), who, including his dual role as Chief of the Central Security Service, manages the largest single program contained in the national intelligence budget."

Victor Marchetti and John D. Marks, in *The CIA and the Cult of Intelligence*, reported that former CIA director Richard Helms was so frustrated by his lack of real authority within the intelligence community that he concluded, "It was unrealistic for any DCI [director of Central Intelligence] to think that he could have a significant influence on U.S. intelligence-resource decisions or the shaping of the intelligence community." According to Marchetti and Marks, Helms once observed to his staff that "while he, as DCI, was theoretically responsible for 100 percent of the nation's intelligence activities, he in fact controlled less than 15 percent of the community's assets — and most of the other 85 percent belonged to the Secretary of Defense and the Joint Chiefs of Staff."

Even with that bleak assessment, however, Richard Helms overestimated his true influence. According to the Senate Intelligence Com-

BIRTH 3

mittee, "as Director of the CIA, the DCI controls less than 10 percent of the combined national and tactical intelligence efforts." The committee went on to say "The remainder spent directly by the Department of Defense on intelligence activities in FY 1976 was outside of his fiscal authority." Then, pouring salt on the wound, the committee added, "The DCI's influence over how these funds are allocated was limited, in effect, to that of an interested critic."

So where, then, is the real power base in the U.S. intelligence community? Again, according to the Senate Intelligence Committee, in terms of both budget and size "the most influential individual is the Director of NSA."

Soon after his appointment by President Carter, CIA director Stansfield Turner realized how emasculated the position of DCI had become. He created a storm of controversy, shortly after his arrival at Langley, by suggesting the establishment of what amounted to an "intelligence czar," with absolute power over the sprawling intelligence community. The suggestion sparked a bitter battle with Secretary of Defense Harold Brown, who opposed any takeover of what he considered primarily defense-oriented agencies.

The dispute was resolved on January 24, 1978, with the issuance of Executive Order No. 12036, which reorganized the intelligence community and established greater restrictions on collection techniques. The order rejected Turner's concept and left overall control of the NSA and the other defense intelligence organizations with the Secretary of Defense, although it did give the DCI greater control over both assignments and the budget for the entire community.

Yet despite Turner's increased position in the intelligence community, the role of the CIA as a major intelligence collector continued its downward trend as a result of the continuing growth of technical intelligence and a corresponding decline of that gathered by human effort. James R. Schlesinger, the tough, organization-minded manager President Nixon picked in 1973 to replace Helms, arrived at CIA headquarters with a pipe in one hand and an ax in the other. During his brief five-month tenure Schlesinger chopped more than two thousand employees from the payroll. On taking office in March 1977. Admiral Turner picked up Schlesinger's bloodied ax and slashed away another 820 employees, thus nearly causing what one former agency official called "the CIA's first mutiny." Actually, Turner had been kind; he had inherited a Ford administration recommendation to cut from twelve hundred to fourteen hundred people. By 1978 the CIA's Operations Division had been reduced from a peak of eight thousand during the Vietnam War to less than four thousand.

Although the NSA had also suffered cutbacks, particularly once the Vietnam War ended, by 1978 it still controlled 68,203 people — more than all of the employees of the rest of the intelligence community put together.

Despite its size and power, however, no law has ever been enacted prohibiting the NSA from engaging in any activity. There are only laws to prohibit the release of any information about the Agency. "No statute establishes the NSA," Senate Intelligence Committee chairman Frank Church reported, "or defines the permissible scope of its responsibilities." The CIA, on the other hand, was established by Congress under a public law, the National Security Act of 1947, setting out that agency's legal mandate as well as the restrictions on its activities.

In addition to being free of legal restrictions, the NSA has technological capabilities for eavesdropping beyond imagination. Such capabilities once led former Senate Intelligence Committee member Walter F. Mondale to point to the NSA as "possibly the most single important source of intelligence for this nation."

Yet the very same capabilities that provide the United States with its greatest intelligence resource also provide the nation with one of its greatest potential dangers. Noted Senator Church: "That capability at any time could be turned around on the American people and no American would have any privacy left, such is the capability to monitor everything: telephone conversations, telegrams, it doesn't matter. There would be no place to hide." America had secretly constructed the eavesdropping equivalent of the H-bomb. Now the question was where to use it.

It was a difficult and dangerous road, a road that had its unlikely beginning in the small southern Indiana town of Worthington during the pastel, sunlit days before America's first war to end all wars.

HERBERT OSBORNE YARDLEY was a dreamer. Terrestrially, the borders of his world were the small southwestern Indiana towns with such descriptive names as Coal City, Clay City, and Freedom. He was born on April 13, 1889, in Worthington, where the Eel River flows gently into the mightier White. He was the son of a railway telegrapher, and the rumbling thunder of an approaching train was more than simply a reminder of where his father worked; it was the sound in his dreams that led to distant cities and exotic lands with intriguing names.

He was the archetypical high school success — the boy with a talent for doing everything right. He was popular and outgoing; he was intelligent; he was an amusing talker. It was almost inevitable that he would become the president of his high school class, editor of the school paper, and captain of the football team. It was not quite so predictable that he would become one of the most addicted poker players in town.

In 1912 at the age of twenty-three, Yardley decided to get on that train which would take him into the bigger world of Washington, D.C. — a trip that eventually would bear him into history as the world's most famous cryptologist, the father of the first codebreaking organization in the United States, and one of the founders of the codebreaking bureaus of Canada and the Republic of China.

All that was some distance in the future, however. Yardley landed at Union Station in the quiet, prewar days when the United States was on the verge of becoming a world power — with all the complicated interests in communications that such power brings with it. On November 16, the young man from Worthington got a job as a \$900-a-year code clerk and telegrapher in the State Department. His dreams had begun to come true, and, for him, the stuttering telegraph key on his desk was the sound of history being made.

It was, at least, the raw material of history — all of these department messages that flowed across his desk — but before that it was still the confidential information on which we based our foreign policy. Yardley worried. He knew that other countries employed "decipherers" to solve the puzzle of coded foreign messages, so why not the United States? "As I asked myself this question," he later wrote, "I knew that I had the answer . . . to a purpose in life. I would devote my life to cryptography."

When he went to the Library of Congress and was able to find no more than a few titles on the subject, most of those in foreign languages, he began to educate himself in the dark art. He practiced trying to decipher State Department messages; at the same time, he began to obtain copies of the coded diplomatic messages of some of the foreign embassies in Washington. Where and how he managed to filch these secret texts will probably always remain a mystery. In his later accounts, he simply alluded to "friendly connections previously established," presumably a co-conspirator in the telegraph company.

One quiet night in May 1916, the wire between the cable office in New York and the White House began to come alive. Ordinarily the State Department code clerks would pay little attention, since such transmission was direct to the White House and in an unfamiliar code; it simply passed through the equipment used in the Code Room. Yardley copied the coded message as the five hundred words began flashing across the wire. The cable was to President Wilson from his aide and personal representative, Colonel House, who had just come from speaking with the German Emperor. If ever there was a challenging code on which to test his ability, surely this must be it: a personal message to the President from his top aide.

To Yardley's amazement, he was able to solve it in less than two hours. Whatever respect he had for the American codes instantly vanished. He knew that messages from Colonel House traveled over cables that passed through England and that the Code Bureau in the Royal Navy intercepted all the messages. "Colonel House must be the Allies' best informant," Yardley concluded.

Throughout the next year the young Hoosier worked secretly on a treatise describing the sad shape of American cryptography and its vulnerability to analysis. As the shadows of the approaching war darkened the horizon, Yardley presented to his superior, David Salmon, his analysis, titled "Solution of American Diplomatic Codes." When he read it, Salmon was speechless. His first thought was that the British maintained a large bureau for solving diplomatic corre-

spondence, and he asked Yardley whether he believed that the English code experts could solve the American code. Yardley answered with what would become a maxim in cryptology: "I always assume that what is in the power of one man to do is in the power of another."

A month later Salmon confidently handed the code clerk a number of messages encoded in an entirely new system. When Yardley placed the deciphered messages on his desk several weeks later, Salmon's optimism disappeared; he was resigned to the belief that nothing was indecipherable.

By now America had entered the war to end all wars. Yardley saw his future not in the State Department, where advancement was snail-paced at best, but with the War Department, which he felt "would soon rule America." On June 29, 1917, he pinned on the gold bars of a second lieutenant and took charge of Section Eight of Military Intelligence, MI-8, responsible for all code and cipher work in the division.

As the war progressed, Yardley added a variety of subsections to MI-8. Because of the likelihood that Germany was reading a great deal of the most confidential American traffic, he first added the Code Compilation Subsection, which began devising new code systems. Next, he established the Communications Subsection to provide rapid and secure communications with about forty military attachés and intelligence officers in foreign countries. Then the Shorthand Subsection, which could attack the most obscure foreign shorthand systems. To head up the Secret Ink Subsection, Yardley had the help of Harvard professor Theodore W. Richards, America's first Nobel laureate in chemistry. Finally, Yardley established the Code and Cipher Solution Subsection, which eventually deciphered a total of 10,735 messages sent by foreign governments.

At the time the Armistice was signed, on November 11, 1918, Yardley was in Paris, trying to develop greater cooperation with the secret French Chambre Noire. He was then directed by Washington to take charge of a code bureau attached to the American Commission to the Peace Conference. From two rooms in the Hôtel Crillon, the small band of cryptologists encrypted messages for the delegation and solved those of the other Allied nations. Much of the intercepted traffic related to the intrigues of secret agents and espionage operations that abounded during the conference, each nation doing its best to read each other's cards.

With the conclusion of the conference, Yardley sailed back to the United States and to an uncertain future. For some time he had been concerned about what lay ahead, now that America had entered a

time of peace. "The situation is so uncertain," Yardley confided to a friend in December of 1918, "that I have already written . . . about getting some sort of job with the American Code Company." His days of peering into the secret codes of foreign nations, he feared, were over forever.

But by the time Yardley arrived in the United States, on April 18, 1919, there had already been a number of discussions on the possibility of retaining a capability to eavesdrop on foreign communications. General Marlborough Churchill, director of Military Intelligence, had recommended to the Army chief of staff that MI-8 "be retained in toto"; and in Washington, Captain John Manly, who had been in charge of MI-8 in Yardley's absence, had recommended "a large permanent organization" but added that he was anxious to get back to his professorship at the University of Chicago and suggested that Yardley be retained as chief of MI-8.

To his delight, Yardley was given the assignment to prepare a memorandum arguing for retention of MI-8 and its conversion to a peacetime organization. The proposal, submitted by General Churchill to the Army chief of staff on May 16, called for a bureau consisting of ten code and cipher experts, each employed at \$3000 per year, fifteen code and cipher experts at \$2000, and twenty-five clerks at \$1200. The chief himself would receive the handsome salary of \$6000 a year. The total budget, including rent, heat, electricity, and reference books, was set at \$100,000, \$40,000 of which was to be paid by the State Department and \$60,000 by the War Department. The War Department was to submit its expenditure in a "confidential memorandum," which was not subject to review by the Comptroller General — and this probably represents the first American example of a secret intelligence budget.

The proposal also specified that the organization be composed of civilians, and cited the British policy of "searching the British Empire for the best code and cipher brains of the Empire." The type of mind needed in cryptologic work, it argued, is seldom found in the Army.

The day after the memorandum was submitted it was approved by Frank L. Polk, the Acting Secretary of State; and on May 20, 1919, as the ink from the signature of Chief of Staff General Peyton C. March began drying, America's Black Chamber was born.

For reasons of security, as well as the fact that the State Department's portion of the budget could not by law be spent within the District of Columbia, Yardley set up shop in New York City. After first considering a building at 17 East 36 Street, he finally settled

on a stately four-story brownstone at 3 East 38 Street, owned by an old friend.

Secrecy was always the paramount concern; each new employee, as soon as possible, was given a memorandum that dictated a number of security precautions and outlined the Black Chamber's cover story: "Where you work and what you do are not matters for discussion, but rather than appear mysterious you may say that you are employed by the War Department in its translation department." In addition to a cover story, the Chamber also had a cover address, Post Office Box 354, Grand Central Station, New York, which was to be used for all correspondence.

To hide even further the true nature of the work (as well as to earn a few extra dollars) Yardley formed a commercial code business called Code Compilation Company, and operated it from the first floor of the brownstone. If anyone ventured in through the front door, he would find an apparently legitimate company. The firm did produce a commercial code, the Universal Trade Code, which it was able to sell profitably.

Yardley's tiny enterprise took off like a rocket. At midnight on Friday, December 12, 1919, that rocket reached its apogee. Five months earlier Yardley had promised General Churchill that he would solve the Japanese code within a year or resign. Now, out of a sound sleep, the solution had come to him. "My heart stood still, and I dared not move," Yardley would later write. "Was I awake? Was I losing my mind? A solution? At last — and after all these months!" An hour later, after successfully testing his theory, he locked the key to the solution of the Japanese code in his safe, told his wife to get dressed, and went out to celebrate. That decipherment was to be by far the most important achievement of the Black Chamber and Yardley's greatest personal triumph, though he did have some help from his brilliant assistant Frederick Livesey.

The timing could not have been better. During the summer of 1920 the major powers began to move toward a conference on the limitation of naval armaments, a sort of post-World War I SALT talk. The goal was a Five-Power Treaty between the United States, Britain, France, Italy, and Japan to set limits on the tonnage of capital ships. The treaty would stipulate certain ratios in terms of tonnage for each nation according to its current naval strength and require that these ratios be maintained.

The conference opened on November 14, 1921, in Washington's Pan American Building. Three days earlier, the American delegate, Secretary of State Charles Evans Hughes, had revealed the United

States position on the question of ratios: parity with England and a 10-to-6 ratio with Japan. Each point in the ratio meant 100,000 tons of capital ships, or the equivalent of about three battleships. Secretary Hughes was therefore seeking an agreement of a million tons for the United States versus 600,000 tons for Japan, the most aggressive nation attending the Washington Conference.

For Yardley, the armament conference was a chance to prove to the policy-makers in Washington the tremendous value of his Black Chamber. The first indication of a conference came in intercepted telegram No. 813, from Japan's ambassador in London to Tokyo, on July 5, 1921. From then on the Chamber began following closely each development as the messages were in turn deciphered and translated. Daily courier service was established between New York and Washington. It was learned early that Japan had set its bottom line with the United States at a ratio of 10 to 7. When the Japanese delegate, Admiral Tomosaburo Kato, went public with this position, it appeared that the conference had reached a stalemate. The deciphered messages, however, began telling a different story. Then, on November 28, the Black Chamber deciphered what Yardley considered "the most important and far-reaching telegram that ever passed through the Black Chamber's doors." It was from Japan's Foreign Office to the delegation in Washington and showed the first signs of a softening of Japan's 10-to-7 position:

It is necessary to avoid any clash with Great Britain and America, particularly America, in regard to the armament limitation question. You will to the utmost maintain a middle attitude and redouble your efforts to carry out our policy. In case of inevitable necessity you will work to establish your second proposal of 10 to 6.5. If, in spite of your utmost efforts, it becomes necessary in view of the situation and in the interests of general policy to fall back on your proposal No. 3, you will endeavor to limit the power of concentration and maneuver of the Pacific by a guarantee to reduce or at least to maintain the status quo of Pacific defenses and to make an adequate reservation which will make clear that this is our intention in agreeing to a 10-to-6 ratio.

No. 4 is to be avoided as far as possible.

An avid poker fan, Yardley now likened America's position to that of a stud poker player who knows his opponent's hole card: "All it need do was to mark time." Finally, on December 10, Japan threw in its hand and agreed to the 10-to-6 ratio.

By the time the conference drew to a close, on February 6, 1922, Yardley's health had taken a sharp turn downward. Overcome by

exhaustion, on the verge of a nervous breakdown, and weakened by a mild case of tuberculosis, he remained in bed for a month. In March his doctor told him to pack his bags and go to sunny Arizona for a long rest. Three months without seeing a single coded message or rushing toward a deadline apparently did the trick, and in June he returned to the anonymity of the Black Chamber, fully recovered.

But things had changed. Gone was the eager anticipation in the halls and offices of the War and State Departments, anxiously awaiting the news that the latest decipherment would bring. The all-important conference was over, and America was enjoying a long-awaited peace. All this meant that the Chamber's once-endless stream of intercepted messages was rapidly drying up.

This had always been a serious problem for the Black Chamber; without messages there could be no solutions. During the war, obtaining cable traffic presented no problem because of mandatory cable censorship. This ended on the Far East circuits on December 21, 1918. The United States had wanted to end all remaining censorship later that month but the British and the French wanted the practice to continue; it was finally dropped by the United States in early 1919. Whether it was also ended by the British and French is unknown.

With the end of the war came another problem: the Radio Communication Act of 1912 was again in effect. This act provided that the government would guarantee the secrecy of communications:

No person or persons engaged in or having knowledge of the operation of any station or stations shall divulge or publish the contents of any messages transmitted or received by such station, except to the person or persons to whom the same may be directed, or their authorized agent, or to another station employed to forward such message to its destination, unless legally required to do so by the court of competent jurisdiction or other competent authority.

The law had been enacted after the proclamation of the International Radio-Telegraph Convention of July 8, 1912. Three days earlier, the United States had joined a great many other nations in London in affixing their signatures to the document. This was a very significant step for the United States, since it represented the first international convention of its type to which the country had adhered. To the Black Chamber, however, it represented a large obstacle that had to be overcome — illegally, if necessary.

By the time Yardley returned to the United States in April 1919, the State Department was already busy trying to establish a secret

liaison with the Western Union Telegraph Company. It was hoped that Western Union would cooperate with the Black Chamber in providing copies of needed messages. For six months the State Department got nowhere; the Radio Communication Act provided harsh penalties for any employee of a telegraph company who divulged the contents of a message. Then Yardley suggested to General Churchill that he personally visit Western Union's president, Newcomb Carlton. The meeting was arranged in September, and Churchill, accompanied by Yardley, raised with President Carlton the delicate matter of his secretly supplying the Chamber, in total violation of the law, copies of all necessary telegrams. After the men "had put all our cards on the table," Yardley would later write, "President Carlton seemed anxious to do everything he could for us."

Under the agreed-on arrangements, a messenger called at Western Union's Washington office each morning and took the telegrams to the office of the Military Intelligence Division in Washington. They were returned to Western Union before the close of the same day.

In the spring of 1920 the Black Chamber began approaching the other major telegraph company, Postal Telegraph, with the same request. Officials of this company, however, were much more disturbed by the possibility of criminal prosecution than were their counterparts at Western Union. For this reason, negotiations with the Black Chamber were carried on through an intermediary, a New York lawyer named L. F. H. Betts. All letters were carefully written so that no outsider would be able to understand what was really being said, and to camouflage the negotiations even further, Betts in one case communicated with General Churchill through the general's wife.

In the end an agreement was reached, and that left only the smaller All-American Cable Company, which handled communications between North and South America. Yardley, later that same year, began negotiations with it through W. E. Roosevelt and Robert W. Goelet, who himself had been a commissioned officer in Military Intelligence during the war.

Regardless of whether All-American cooperated, by the end of 1920 the Black Chamber had the secret and illegal cooperation of almost the entire American cable industry. American cryptology had lost its virginity.

By early 1921, however, Yardley's delicately woven cooperation with Western Union threatened to come unraveled. On the afternoon of March 5, four miles off the warm sands of Miami Beach, American sub chaser No. 154 aimed its forward gun at the Western Union cable ship Robert C. Clowry and with an ear-piercing boom sent a

shell across her bow. Captain H. M. Smith of the *Clowry* was duly impressed. As he began to heave to and precede the sub chaser in to shore, a bitter dispute between Western Union and the federal government had dramatically reached its climax.

For months the giant cable company had been trying to lay a cable from Florida to connect with the British cables serving Brazil. But the link would have strengthened a British monopoly over communications between the United States and the South American country, a monopoly the State Department feared would be extremely detrimental to American commercial interests. At the time, the British had almost complete control of the world's cable systems, the principal channel through which all international business was negotiated. No matter where a cable originated or was destined — Asia, Africa, Europe, South America, or even the United States — the odds were that at some point it would have to pass through the British cable system. The State Department's consternation was increased when it learned that the British were secretly eavesdropping on all cable messages, commercial as well as governmental, a practice that originated long before the First World War and continues to the present.

American cables had been laid by another U.S. cable company into Santos and Rio de Janeiro, thereby making possible direct communication between the United States and Brazil. The problem, however, was that Western Union controlled the routing of messages originating in the United States and thereby could drive the other company out of business simply by routing all messages to and from Brazil over the Miami-British cable link. It was the assignment of Ensign William H. Klapproth, commanding officer of the sub chaser, to prevent that link from being formed. After the warning shot, the cable, four miles short of its goal, sank to the bottom as the *Clowry* headed into Miami.

The controversy was still raging when, on April 2, Yardley approached his Western Union contact, J. C. Willever, the vice president, and requested that he supply some messages that had been filed by an agent of a country in which the Black Chamber was greatly interested. But the request, bucked up the ladder to President Newcomb Carlton, could not have been more ill timed; still bitter over the action by the State Department and the Navy, Carlton refused any additional favors to the Black Chamber. Yardley, not to be outdone, went to Brigadier General D. E. Nolan, who had replaced Churchill as head of Military Intelligence and whom Yardley had known when Nolan was wartime chief of Military Intelligence in France. He suggested that Nolan have a conference with Carlton and possibly work

out a modus operandi that would be satisfactory to both sides. Whether such an agreement was made may never be known; either the subject was too sensitive to be committed to paper or the documents were destroyed.

How long the cooperation of the companies lasted is also unknown. It does seem certain, however, that by the middle to late 1920s the volume of cable traffic to the Chamber had dropped quite sharply. One factor that may have had some influence was the enactment of the Radio Act of 1927, which greatly broadened the Radio Communication Act enacted in 1912. Whereas the 1912 act made it a crime only for the employees of the cable and telegraph companies to divulge the contents of the messages to unauthorized persons, the 1927 act closed the loophole by making liable to criminal penalties also those who received such unauthorized communications. One exception allowed for the acquisition of messages "on demand of lawful authority," but Yardley and his ultrasecret Black Chamber could hardly avail themselves of this channel.

As a result of the reduction in cables supplied by the cable companies, attention turned to the establishment of intercept stations to eavesdrop on communications sent by radio. During the war, this had been the responsibility of the Signal Corps. Its primary usefulness was at the front lines, where radio intelligence units would monitor German battle communications. In the United States, the Signal Corps maintained "mobile tractor" units stationed along the southern border to intercept some of the Mexican traffic, but radio was still considered too new and unreliable for long-distance communications between fixed stations.

As the war ended, so did the intercept material, a fact that came as a total surprise to Yardley and Military Intelligence. Just as they had taken for granted that the cable companies would continue to supply copies of all messages passing through their offices, they assumed that the Signal Corps would continue its wartime intercept activities, which would be at the call of the Black Chamber. Now that the cable companies were beginning to back off and supply less and less material, Yardley began looking again to the possible establishment of intercept stations.

In 1925 Military Intelligence began to consider setting up a listening post in China to monitor Japanese radio traffic. The Signal Corps also was enthusiastic over the idea and recommended that four expert telegraphers be sent on a special mission to China, where they would study the Japanese language and learn to read the Japanese radio code. It was hoped that this training would make them expert intercept

operators and that they could, once they returned, be assigned to Military Intelligence and the Signal Corps as instructors.

Though the idea sounded good, it soon ran into a storm of bureaucratic static, and in 1932 the State Department formally scratched the plan.

At one other point Yardley had considered the establishment of an intercept station. In 1922 one of RCA's competitors confidentially informed him that "there existed in the office of this competitor an automatic wireless-receiving set which was used to monitor the traffic of the Radio Corporation of America for commercial purposes." The intercepts were made on a tape that could be read visually. With a similar receiving set, Yardley believed, he would be able to do his own intercepting. Tests were begun to see whether such a set, established either at Governor's Island, New York, or in Yardley's office, would be able to eavesdrop on the commercial telegraph station in San Francisco that, it was believed, broadcast the Japanese diplomatic messages. The tests proved a failure, however, and the project was abandoned.

During the mid to late 1920s this lack of both cables and intercepted radio communication proved to be a major problem for the Black Chamber, a problem that would never be totally overcome. Yardley's once-soaring rocket was beginning to fall back to earth, its fuel of messages rapidly being exhausted.

Traffic between the Black Chamber and the State and War Departments was passed in the form of "bulletins," which always began with the ambiguous phrase: "We learn from a source believed reliable that . . ." followed by the deciphered but paraphrased intercept.

By the fall of 1924 the bulletins were becoming scarcer as the traffic dropped off to zero. The Japanese desk cryptanalytic staff was now reduced to processing material dating back to the war and the peace conference — material acquired when the Black Chamber first established its secret liaison with the cable companies.

During all of 1926 the Black Chamber received only eleven Japanese messages, and these were radio intercepts. Since they were in several different systems it was hardly enough for the Chamber staff even to begin working out a solution. Nineteen twenty-seven proved substantially better, with 428 Japanese messages received, of which 150 were deciphered.

The lack of intercepts, combined with a governmentwide austerity drive, hit the Black Chamber like a sledgehammer. In May of 1923, Yardley was forced to cut back so drastically that he had to fire more than half his staff. Nine people, including such valuable assets as

Frederick Livesey, were dismissed, thus reducing America's entire corps of codebreakers to seven. In a letter written that month, Yardley indicated just how severe the budget cutbacks had become:

In 1919 our organization called for an expenditure of \$100,000. This was reduced to something like \$70,000, and then to \$50,000; next year we are reducing it to \$35,000 and if the plans outlined above are followed we shall, for the following year, reduce it to \$25,000. This means that in the year 1924-1925 we will be spending only 1/4 of the money that was planned for this bureau when it was established in 1919, or a reduction of 75% in a period of five years.

In an effort to save on rent, and also because of a recent breakin, the Black Chamber was moved from the comfortable town house at 141 East 37 Street, where it had moved in June 1920, to several back rooms in a large office building at 52 Vanderbilt Avenue, where it again was hidden behind the cover of Yardley's Code Compilation Company.

In March of 1929, Herbert Clark Hoover told an inauguration crowd, "I have no fears for the future of our country; it is bright with hope," and then proceeded to the White House as the nation's thirty-first President. As his new Secretary of State, Hoover appointed the conservative Henry L. Stimson.

To Yardley, any change in Washington was viewed as a potential threat to his Black Chamber, and he advised his liaison at the State Department not to reveal the existence of the organization to the new Secretary for a few months, in the hope that any idealism Stimson may have had before taking office would become tempered by reality.

Then in May, after Yardley had deciphered a new group of Japanese messages, he decided the time had come to share the dark secret with the man who was paying the bills, and a few selected translations were laid on the Secretary's desk.

Stimson's reaction was immediate and violent. Branding the Black Chamber highly illegal, he at once directed that all its State Department funds be cut off. Since the Chamber was now getting almost its entire support from the State Department, that meant instant doom.

Yardley apparently took the news hard. The Black Chamber had successfully solved more than ten thousand messages, most of them diplomatic, including sixteen hundred during the armament conference alone. In addition, since 1917 Yardley and his staff, laboring in thankless anonymity, had managed to solve coded messages from Argentina, Brazil, China, Costa Rica, Cuba, Germany, Japan, Liberia,

Mexico, Nicaragua, Panama, Peru, the Soviet Union, El Salvador, Santo Domingo (the Dominican Republic), Spain, France, England, and had even studied the papal codes of the Vatican. Yet, after all this, it now fell on Yardley to inform what was left of his staff that, according to the new Secretary of State, "gentlemen do not read each other's mail."

That day was to be their last. So outraged was Stimson that he wanted the entire staff dismissed at once. It took a considerable amount of pressure by the assistant chief of staff for Military Intelligence to convince him that the immediate effect of throwing six people out on the street would be to invite possible "indiscretions which could be embarrassing to the Government and produce serious consequences as regards . . . national defense." Stimson apparently saw the logic in the argument, especially when it was also noted that the codebreakers had neither civil service status nor retirement benefits. It was therefore agreed that the actual work of the organization would end immediately, but that the personnel would be retained on the payroll during a period in which a reorganization would take place. In the summer of 1929 the six were given an advance of three months' pay, which was to tide them over until they were able to locate new jobs. Then, at midnight on October 31, 1929, the doors to the Black Chamber officially closed, as quietly as they had opened.

If Herbert Yardley had nightmares that evening, it had nothing to do with Halloween. Seven days earlier the bottom had fallen out of the stock market. Black Thursday. The Great Depression had begun. Now, for the first time in sixteen years, Yardley was without a paycheck, without a job, and with skills so arcane as to be almost useless.

Back in Worthington, and with no end to the Depression in sight, Yardley began toying with the idea of writing a book describing his exploits as chief of the Black Chamber. The idea at once attracted and repelled him — after all, it was he who had written to a friend, only half a dozen years before, "Ever since the war I have consistently fought against disclosing anything about codes and ciphers. My reason is obvious: It warns other governments of our skill and makes our work more difficult." Even earlier, he had written that if it should become known by the Japanese that the Americans could read their messages, "they may make such a violent change in their new codes that we could never read them."

But Yardley was convinced that the situation was now different. The book, he would argue later, could not injure the government, "because it proved to foreign nations that we would no longer stoop to this sort of espionage." His deepest and sincerest motivation, how-

ever, came from the feeling that the State Department had made a terrible blunder based on a naïve and unrealistic view of the world. He felt that by letting the American people know that their government had removed one of the most important tools in international diplomacy, a tool designed to save lives in time of war and to fortify America's diplomatic positions in time of peace, enough of a furor would be created to force the government to rethink its position. In addition, he believed that the present state of the American code was so bad that almost any nation could read it anyway, and the publicity might bring about the needed revisions.

The reasons for publication, Yardley decided, greatly outweighed those against, and he set out to find an agent who might be able to help him sell the idea. He selected George T. Bye & Company of New York, a well-known literary agency with offices at 535 Fifth Avenue. Bye immediately saw the potential in such a book but recommended magazine publication as the first step. The Saturday Evening Post liked the idea and agreed to serialize the text in three issues. Finally, Yardley received the news that the Bobbs-Merrill Company of Indianapolis had approved of his outline and agreed to publish his book.

Military Intelligence had known of Yardley's publication plans almost from the beginning. In May 1930, Colonel Stanley H. Ford, the assistant chief of staff for Intelligence at the War Department, was told by "a prominent publisher" that he had been approached by Yardley, who proposed to write a full account of his activities while employed by the MID. Yardley had taken the publisher into his confidence and told him fully of his activities under the War Department both before and after the Armistice. The publisher, after conferring with Ford, agreed that going ahead with the publication "would not be for the best interests of the United States" and therefore declined to accept Yardley's proposal.

After the publisher left, Ford contacted Lieutenant Colonel O. S. Albright, who was one of the officers involved in closing down the Black Chamber, and asked him to contact Yardley. When they met, Albright pointed out to Yardley that if he made public his activities after the Armistice, "it was possible that international unpleasantness might arise." Yardley vaguely promised that he "would be careful," but he would not agree to submit any articles to the War Department for screening.

On March 28, 1931, the panic began. In that week's issue, *The Saturday Evening Post* announced Yardley's forthcoming series of articles. Emergency meetings were called in Washington to decide on

a course of action. Prosecution was considered but rejected, because it was felt that such a trial would be compromising as well as embarrassing to the government. Suppression of the book was also considered, but, there being no precedent or legal basis, this too was rejected.

The Post articles, "Secret Ink," "Codes," and "Ciphers," which appeared between April 4 and May 9, were a smash hit and whetted the public's appetite for the publication, on June 1, of what was to become one of the most controversial books in American publishing history, The American Black Chamber.

The book was an immediate success. It was written in a thrilling, melodramatic style, and it related the Chamber's most intimate secrets. The critics were as favorable as official Washington was horrified. One critic called it "the most sensational contribution to the secret history of the war, as well as the immediate post-war period, which has yet been written by an American." The State Department, on the other hand, not only denied that it had been reading the Japanese messages during the Washington Conference, but even stated that Secretary of State Stimson had never heard of the Black Chamber. A few days later, Stimson changed his denials to an embarrassed "no comment." General Douglas MacArthur, the Army chief of staff, stated that he knew nothing about the Black Chamber; high officials in the Military Intelligence Division did the same.

That fall, Yardley toured the country, lecturing to audiences about America's past successes in cryptology and its bleak future without them. He was, however, ambitious to produce another book. The American Black Chamber had been a popular exposé — it sold about eighteen thousand copies in America — but Yardley wanted to be accepted as a serious historian, as well. His new subject was to be the Japanese role in the arms limitation conference of 1921–1922; as a basis for the text, Yardley had a personal cache of the intercepted Japanese messages that had been decoded in the Black Chamber. Such a book would, he thought, provide its readers with a unique glimpse into diplomacy, as they followed the secret communications of an adversary during an international conference.

Because making a book out of the mass of Japanese telegrams was a job for which, evidently, he had little patience, Yardley hired a young free-lance journalist, Marie Stuart Klooz, who was recommended to him by his agent. The thirty-year-old graduate of Sweet Briar had worked several years as a newspaper reporter and earned a well-deserved reputation for speed. In two months, she produced a 970-page manuscript. She and Yardley discarded such possible titles

as Diplomatic Eavesdropping and Embassy Keyholes, and settled on one guaranteed to glaze all eyes except the most academic: Japanese Diplomatic Secrets: 1921-22.

By late summer of 1932, rumors of the new Yardley book were beginning to circulate in Washington, and Yardley got wind of them. Afraid that this time the government would take some action, he decided to have his young ghost writer put her name on the manuscript as sole author.

Could a young lady who had been a Sweet Briar junior during the armament conference have decoded a whole volume of Japanese diplomatic traffic and written a scholarly book about it? Evidently America's finest cryptologist could invent no more baffling deception than that.

The finished manuscript was placed in seven brown manila envelopes and quietly delivered to the Bobbs-Merrill Company. But Yardley by now was too hot to handle, and D. L. Chambers, president of the publishing house, turned down the manuscript. Worried that the Justice Department was going to ban further publication of *The American Black Chamber*, and trying to curry some favor with the department, Chambers secretly notified Nugent Dodds, the assistant attorney general, about Yardley's new book, noting that it made heavy use of the intercepted Japanese messages.

Dodds immediately notified Stanley K. Hornbeck in the State Department's Division of Far Eastern Affairs. In a memo dated September 12, 1932, Hornbeck warned, "I cannot too strongly urge that, in view of the state of excitement which apparently prevails in Japanese public opinion now, characterized by fear of or enmity toward the United States, every possible effort should be made to prevent the appearance of this book."

The day after Hornbeck's memo, Dodds, who himself considered any sequel to The American Black Chamber both scandalous and a serious threat to national security, requested that Bobbs-Merrill wire him Yardley's current address. A few hours later, a Western Union telegram informed him that Yardley was now at home in Worthington, Indiana. He notified the Secretary of War, who issued an immediate order through his Adjutant General, directing that one officer, together with two witnesses, proceed at once to Yardley's home. There they were to demand the return of the Japanese messages and any other secret or sensitive materials he may have taken from the Black Chamber. So that there would be no written record of the action, the officer was ordered to instruct Yardley orally. "This demand must be made in the presence of two witnesses, preferably military," the

order stated, "for the reason that no copy of this communication or demand will be furnished Mr. Yardley." The original copy of the order was to be returned to the War Department.

Three days later, on the evening of September 16, Infantry Colonel Oliver P. Robinson, a professor of military science at Indiana University, accompanied by Captains Frank E. Barber and Ernest C. Adkins, called on Yardley at his home. When Yardley answered the door, Colonel Robinson began to read the prepared order:

"The Secretary of War is informed and believes that you have in your possession and under your control diverse original documents that came into your possession during the time that you were an employee of the United States Government in connection with the Military Intelligence activities of the War Department, including those certain documents, reproductions of which are set forth in a book written by you entitled *The American Black Chamber* between pages numbered 48 and 49, and 168 and 169.

"The Secretary of War has also been advised that you have within your possession and under your control diverse other original documents belonging to the United States made and obtained by you while you were connected with the United States Government in the capacity above mentioned.

"It is, therefore, demanded of you that you deliver to the Adjutant General, United States Army, War Department, Washington, D.C., which officer is designated to receive such delivery, all such documents or copies of documents hereinabove described by reason of the relation of such documents and copies of documents to the National Defense, and that you refrain from making or causing to be made any copies thereof of any kind or nature whatsoever."

Yardley, obviously surprised by his evening visitors, first tried to assure the trio that he was out of the exposé business by telling them he had turned down an offer by Cosmopolitan magazine to write a series of articles on espionage. He added, "I am not interested in non-fiction." Then he declared, "I have no documents that could injure the strength of the U.S. Government." As his surprise began turning into anger, Yardley told the colonel, "I cannot understand why the U.S. Government should attempt to embarrass me," and demanded to speak to the Adjutant General about the matter.

Dodds had never really believed that Yardley would give up the material voluntarily. Legally, there was very little he could do, since Yardley's actions seemed to fall between the cracks of the espionage statutes. Still, he was not about to have Yardley slip another American

Black Chamber under his nose, and he was determined to get his hands on the new manuscript.

At 9:45 A.M. on the morning of the 16th, Dodds felt he might get his chance. At that time he was visited by Colonel Alfred T. Smith, the War Department's assistant chief of staff for Intelligence, who informed him that the manuscript was at present in the hands of Yardley's new literary agent, Viola Irene Cooper, at 9 East 59 Street in New York City, and that she "will endeavor (or has endeavored) to place it with the MacMillan [sic] Company."

Dodds immediately telephoned the United States Attorney's office in New York City and spoke with the first assistant, a dashing, thirtyyear-old attorney with jet black hair and an Errol Flynn mustache. Dodds told the assistant, Thomas Edmund Dewey, to get in touch with the Macmillan Company "relative to the inadvisability of publishing this book."

Dewey telephoned George Platt Brett, Jr., heir to the Macmillan publishing empire and president of the company. Brett, whose father still held control as chairman of the board, had himself worn khaki during the war as an officer in Military Intelligence. He agreed totally with Dewey and vowed to cooperate in any way he could to prevent the publication of Yardley's new book. At the time he spoke with Dewey, Brett had not yet read Yardley's The American Black Chamber, so a short while later he picked up a copy for himself. Outraged at the revelations, he wrote to Dewey: "I can readily see why the government should object to the publication of that book. Not only is it in very bad taste, but it seems to me that it reveals information which never should be revealed to the public."

Brett's cooperation with the government, however, went much deeper. He not only took great care to avoid publishing anything that might violate the espionage laws; he went so far as to refuse books that might simply "embarrass" the government. Around the same time as his phone conversation with Dewey, Macmillan had received the manuscript for *The Dark Invader*, by Captain F. von Rintelen, a German spy who had operated in the United States. Brett voluntarily offered the manuscript to Dewey and asked to have someone review it for any possible violations of the espionage laws and for "anything which the government would rather not have us include in the book." He added, "We are naturally anxious to co-operate in every possible way."

A few days later, Dewey sent the manuscript off to Nugent Dodds, asking that the Justice Department comply with the publisher's request to return the book as soon as possible. "I assume the Department

will endeavor to cooperate with him," Dewey wrote, "particularly in view of his courtesy in submitting the book for the Government's inspection, and his attitude that he not only desires to avoid any possible violation of the espionage laws, but also his general attitude that anything offensive to the Government, whether illegal or not, would be distasteful to him."

Dodds, in turn, sent the document off to an embarrassed War Department, which had never requested nor, indeed, wanted the manuscript. With censorship dead for more than twelve years, it had no legal authority to review any private publications. After a brief review, in which it was determined that the book might embarrass a few living persons but posed no security threat, the War Department returned the manuscript to Dodds with a warning that it was not in the literary review business. The assistant attorney general then shipped it back to Dewey without even attaching a letter. Dewey, perplexed, wrote back to Dodds and, noting that no letter was enclosed, asked, "Can you advise me at this time whether *The Dark Invader* offends the War Department?"

Dodds replied with the suggestion that Dewey get in touch with Brett by phone, apparently to avoid any written record, and inform him that the War Department "appreciates his courtesy in permitting it to examine the manuscript but regrets that it is unable to express any opinion concerning the propriety or the legality of publishing the same." He added that the propriety of publishing the manuscript "is one which must be considered by the publishers."

Four months later, on February 16, 1933, Brett called Dewey to inform him that George Bye (Yardley had returned to his former agent) was about to submit the manuscript of Japanese Diplomatic Secrets. Dewey immediately contacted Frank Parrish, who was the acting head of the Justice Department's Criminal Division, and said that if either the Justice Department or the War Department desired to read the manuscript secretly, he would be able to accommodate it, as long as the reading was done quickly. "The important thing is that Macmillan cannot properly keep the book more than about ten days," Dewey wrote.

Parrish got on the phone to Colonel Alfred T. Smith, the assistant chief of staff at the War Department, and also called a Mr. Castle at the State Department. Both were eager to see the manuscript, and Parrish so informed Dewey. By now it was Friday, February 17, and time was becoming a major factor. Dewey notified Parrish that Macmillan was due to get the manuscript from their reader the next day and would immediately forward it to Washington. "There is a

pressing time element in this situation in as much as the author has wired them that he will be in New York on *Tuesday*, February 21, to discuss the manuscript," Dewey cautioned Parrish. He also told him that Macmillan had agreed to wire Yardley that the manuscript would not be back from their reader by the 21st, "but they will not be able to delay the author's trip to New York more than one or two days."

By the time Macmillan had received the manuscript on Saturday, it was too late. Dewey could not get the document down to Washington, have it reviewed by both the State and War Departments, and have it back to Macmillan by the time Yardley arrived on Tuesday. The only alternative now was to seize the manuscript, but this presented serious problems. No manuscript had ever (or has since) been actually seized by the government for posing a danger to the national security, and the legal justification for it was, to say the least, tenuous.

Dewey notified George Z. Medalie, the U.S. Attorney, that if a seizure was to be made, it had to be on Monday, before Yardley turned up. The approval was given. On Monday, February 20, 1933, Dewey sent a U.S. marshal to the Macmillan office to advise Brett that he was wanted at the Federal Building and that he was to bring with him the manuscript of Japanese Diplomatic Secrets. At the same time, Dewey sent another marshal to fetch George Bye, Yardley's agent, with instructions to have Bye accompany him to the Federal Building.

Brett arrived first, the seven manila envelopes containing the manuscript tucked tightly under his arm as he entered the Old Post Office Building. Bye had not been in his office when the marshal first arrived, but he appeared a short time later at the United States Attorney's office. He instantly gathered what had happened when he saw Brett sitting there with the manuscript in his lap. A few minutes later, Brett disappeared into the grand jury room. When he reappeared, he no longer had the manuscript; at the recommendation of Dewey, it had been impounded by the grand jury. Japanese Diplomatic Secrets thus became the first and only manuscript in American literary history to be seized and impounded for national security reasons by the United States government. Forty-six years later, in 1979, the manuscript was still in government custody, still packed in its seven manila envelopes, with portions still classified as secret.\*

Bye was called in to testify once Brett left, and he was asked to produce Yardley the next day. Bye agreed and told the grand jury, quite to its surprise, that Yardley had been lecturing in the vicinity

<sup>•</sup> On March 2, 1979, as a result of a request by the author, the entire manuscript was finally declassified.

for some time. No charges were filed against Bye. He was told he was free to go but was advised to keep the whole matter secret.

Dewey considered the seizure so secret that he personally telephoned all the news media and requested that they not publish any information concerning the incident. They all agreed to cooperate. The New York Times had prepared an article on the seizure but agreed not to print it. It was inserted accidentally into one edition but was quickly removed from all others.

When Yardley arrived in Dewey's office the next day, he was informed that his manuscript had been seized pursuant to Title 50, Section 32, of the United States Code, the espionage statute. Dewey gave him the choice of continuing his efforts to get the manuscript published and thereby face probable prosecution or agreeing not to pursue the issue and thereby have all further action stopped. Reluctantly, Yardley agreed.

The battle had been won, but just barely. The State Department knew it was only a matter of time before Yardley would be back in front of his typewriter and that only by swift, tough legislation could his penchant for revelation be quashed.

Work began at once on the drafting of a comprehensive bill that would make it a crime punishable by up to ten years in prison to write or publish information concerning government codes. But the bill that was finally introduced, on March 27, 1933, by Hatton W. Sumners, a Texas Democrat and chairman of the powerful House Judiciary Committee, went much further. Entitled "For the Protection of Government Records," H.R. 4220 also made it a crime for any government employee to "sell, furnish to another, publish, or offer for sale" any government document, regardless of whether it was classified or dealt with any subject relating to codes, just so long as the release of information could be shown to be "prejudicial to the safety or interest of the United States." This amounted to little more than a ruse, since Section 3 of the bill added that "proof of the commission of any of the acts described herein shall be prima facie evidence of a purpose prejudicial to the safety or interest of the United States."

The bill was the closest America had ever come to anything like Britain's Official Secrets Act, whereby unauthorized reporting of even the number of cups of tea consumed by the Prime Minister could be technically prohibited.

On April 3, H.R. 4220 was quietly passed by the House without opposition, after being favorably reported out by the Judiciary Committee. The quiet soon turned to outrage, however, when the press learned of the bill. Complaining that the legislation smacked of censor-

ship, was an abrogation of the freedom of the press, and was contrary to the First Amendment, the news media demanded a repudiation. Accordingly, when the bill was sent to the Senate, a subcommittee removed most of the objectionable portions, and it was passed by that body on Monday, May 8.

Absent during the vote by the Senate was the influential Hiram W. Johnson, a California Republican and former governor, as well as vice presidential candidate. On his return, the senator urged reconsideration of the bill, and on May 10, 1933, it was hotly debated for several hours, with Democrats generally in favor, Republicans opposed. One of the most vocal opponents to the new law was Indiana senator Arthur R. Robinson, who at one point exploded: "We cannot get the truth from the State Department up until this minute! Nobody knows why they want this bill passed — not even the Senator from Texas. We did our best to get them to tell us. We asked them how they got hold of the manuscript of Yardley. 'Did you steal it? Where did you get it?' Not a word. 'Do I have to tell that?' they whimpered."

In the end, despite Senator Robinson's charge that the bill was nothing more than a gag law, much like the old alien and sedition laws, H.R. 4220 became Public Law 37. The final version, signed by President Franklin D. Roosevelt on June 10, 1933, was as follows:

An act for the Preservation of Government Records.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled. That whoever, by virtue of his employment by the United States, shall obtain from another or shall have custody of or access to, any official diplomatic code or any matter prepared in such code, and shall willfully, without authorization or competent authority, publish or furnish to another any such code or matter, or any matter which was obtained while in the process of transmission between any foreign government and its diplomatic mission in the United States, shall be fined not more than \$10,000 or imprisoned not more than ten years, or both.

Today, changed only slightly, the law remains in the criminal statutes as Section 952 of Title 18 of the United States Code.

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The closing of the Black Chamber in 1929, following Secretary of State Stimson's moralistic bombast, was more illusion than reality. His cutting off of funds for Yardley's maverick organization resulted not in an end to cryptanalysis, but merely in its transfer to another

department. Gentlemen would continue to read each other's mail—only now they would be wearing Army green and the crossed flags of the Signal Corps.

Months before the ill-destined intercepts ever reached Secretary Stimson's desk, plans were under way to transfer responsibility for cryptanalysis from Military Intelligence to the Signal Corps. The factors that went into this decision, made formal by Army regulation on May 10, 1929, were numerous, but the most important was the Army's desire for greater centralization and better preparation in the event of a future war.

The need for centralization was obvious. In the past, while the Signal Corps had responsibility for code compilation, the responsibility for the printing, storage, and issuance of the codes and ciphers went to the Adjutant General. Responsibility for cryptanalysis and detection of secret inks, however, had devolved on Yardley and his Black Chamber, hundreds of miles to the north. The reorganization was intended to consolidate this inefficient set-up under one authority—the chief signal officer, Major General George S. Gibbs.

On July 19, 1929, a hot Friday in Washington, General Gibbs called a meeting in his office attended by three senior Signal Corps officers and the civilian in charge of the department's tiny Code and Cipher Section, William F. Friedman. They were there to discuss the establishment of a new organization, one that would bring together responsibility for codebreaking as well as codemaking, intercept as well as solution and translation, production as well as detection of secret ink. The men agreed that the organization should be composed of four divisions: Code and Cipher Compilation, Code and Cipher Solution, Intercept and Goniometry (direction finding), and Secret Ink. They then agreed that the name for the new organization would be the Signal Intelligence Service and its chief, William F. Friedman. Just how fortunate this final decision was would not be recognized until a decade had passed.

The son of a Jew from Bucharest, he was born Wolfe Frederick Friedman on September 24, 1891. At the time, his family was living in the southern Russian city of Kishinev, now the capital of the Soviet Republic of Moldavia near the Rumanian border, where his father, Frederick, was employed as an interpreter and translator in the Russian Postal Service.

As a wave of anti-Semitism began to swell throughout the country, Frederick began looking west and in 1892 set sail for New York. After settling in Pittsburgh, where he got a job selling sewing machines door to door for Singer, he sent for his wife, Rosa, and their two

children. On September 26, 1896, two days after his fifth birthday, Wolfe officially became William as his father took the citizenship oath in a Pittsburgh courthouse.

In high school, the youth found his main interest in electrical engineering but eventually became involved in a "back to the soil" movement and turned his attention to agriculture.

Graduating with honors, he enrolled at the Michigan Agricultural College in East Lansing in 1910 and soon discovered that his interest lay in the more specialized field of genetics. After learning about Cornell's grant of free tuition for students enrolled in the genetics field, he transferred there.

Friedman received his bachelor of science degree in February 1914 and eventually signed on as a geneticist at Riverbank Laboratories, a philanthropic research organization located on a five-hundred-acre estate in Geneva, Illinois, outside Chicago. Run by "Colonel" George Fabyan, an heir to a cotton fortune who chose to spend it dabbling in science, the wooded estate housed laboratories for acoustics, chemistry, genetics, and even one for cryptology, where a handful of scholars hoped to prove that the actual author of Shakespeare's works was Francis Bacon.

In short order, Friedman found himself head of both the Department of Genetics and the Department of Ciphers, and in June 1916 his Cipher Department began receiving work from a rather unexpected source: the United States government.

Fabyan had managed to let the word get out to a few selected officials in Washington that Riverbank had the ability and facilities for solving cipher messages. It was a purely voluntary gesture; he added that of course there would be no charge. At the time, Washington had absolutely no capability for dealing with messages written in code or cipher, and the various government departments slowly began to take Fabyan up on his offer.

As Friedman and his band of cryptologists began solving messages coming in from the Departments of State, Justice, and others, they became America's first de facto cryptologic organization. It was still a year before Yardley would form MI-8, the nation's first official cipher bureau.

Many of the messages that trickled into Riverbank were from Mexico, with whom American relations were less than amiable. According to Friedman, the messages were obtained "by various and entirely surreptitious means from telegraphs and cable offices in Washington and elsewhere in the U.S." They were attacked, solved, and returned, usually within a matter of days.

As the first few months of 1917 brought ominous warnings of an approaching war, Fabyan decided to offer the services of his Cipher Department to the War Department, which wasted no time in accepting. Lieutenant Joseph O. Mauborgne, one of the few outside Riverbank with any knowledge of ciphers, was dispatched to assess the laboratory's capabilities and came away impressed. On April 11 he wired the War Department that officers should be sent to Riverbank for training and that any intercepted messages should be forwarded there immediately for decipherment.

There was good reason for the urgency in his words. Only five days before, America had declared war on Germany.

Two months later, Yardley formed MI-8 in Washington, and from then on, most of the intercepted material was sent to his organization for solution, but Riverbank continued to serve as a training ground for officers before they were shipped to France. Under Friedman's tutelage, a group of four officers spent six weeks in October and November receiving a cram course in cryptanalysis. The course was so successful that the number of officers attending the second class, from January to February 1918, increased fifteenfold, to sixty. The last group, trained in March and April, was back to seven or eight.

Ironically, the War Department later discovered that the officers had been sent to Riverbank to learn cryptography, the making of codes, not cryptanalysis, the breaking of codes. But until 1921, when Friedman coined the word cryptanalysis, the term cryptography had been used to mean both. The word that is now used to cover all aspects of code work is cryptology, also invented by Friedman.

In June 1918 Friedman was commissioned and sent to France, where he worked on the solution of German code systems during the final months of the war. He returned to the United States the following April and, after an unsuccessful search in New York for a position as a geneticist, he reluctantly went back to Riverbank. His stay this time was a brief eighteen months, however; on January 2, 1921, he became head of the Signal Corps's Code and Cipher Section, where his first chore was to revise the War Department Staff Code. Throughout the 1920s, Friedman and his sole assistant, a cauliflower-eared former prize fighter who was now a clerk typist, constituted the War Department's entire cryptographic department.

At seventeen minutes past the hour of ten o'clock on the morning of April 24, 1930, the Signal Intelligence Service was born. It was at that moment that the chief signal officer officially received the order from the Secretary of War setting out the duties and responsibilities of the new organization. As first head of the SIS, Friedman found

that his new responsibilities included the "preparation and revision of Army codes and ciphers and, in time of war, interception of enemy radio and wire traffic, the goniometric location of enemy radio stations, the solution of intercepted enemy code and cipher messages, and laboratory arrangements for the employment and detection of secret inks."

To accomplish his mission, Friedman was authorized to hire four junior cryptanalysts at \$2000 a year and one assistant cryptographic clerk at \$1620. His choice to fill these positions would be one of Friedman's most important decisions and would affect the course of cryptology for years to come.

To fill the four junior cryptanalyst slots, Friedman sought people with a thorough background in mathematics and knowledge of at least one of four languages — French, Spanish, German, and, most important, Japanese.

The Civil Service Commission sent over to Friedman eight candidates, and from these he chose only three. The first was Frank B. Rowlett, twenty-two, a tall, broad-shouldered Virginian from Rose Hill who had graduated with honors in science from Emory and Henry College in Emory, Virginia, the previous June. Rowlett brought the total manpower of the infant SIS up to three when he joined Friedman and his secretary on April 1.

Nine days later Abraham Sinkov, a short, bespectacled high school teacher from New York, was picked to fill the French spot, the German one having been filled by Rowlett. Sinkov, also twenty-two, had graduated from City College in New York in 1927 and had recently earned his master's degree at Columbia.

The Spanish-language vacancy was filled on April 21 by Solomon Kullback, a Brooklynite who had celebrated his twenty-third birthday several weeks earlier. Like Sinkov, Kullback received his bachelor of science degree from City College in 1927 as well as his master's degree from Columbia in June of 1929. Within four years, both Kullback and Sinkov would also have their doctorates in mathematics from George Washington University.

With the selection of Kullback, Friedman could turn his full attention to the most difficult task of all — finding a native-born American fully qualified to translate Japanese. Just as he was searching, the chief signal officer received a call from Joe Shaffer, a Virginia representative who had heard of the Army's need for a Japanese linguist. He asked that his nephew, John B. Hurt, be given an interview.

More out of courtesy than expectation, Friedman arranged for the interview and an examination by Major David M. Crawford, G-2's Japanese expert. The results were better than Friedman could have

ever hoped for. In all his experience, Crawford told Friedman, he had never met a non-Japanese as proficient in the Japanese language. Hurt was quickly hired, and several weeks later Friedman selected Harry Lawrence Clark as an assistant cryptographic clerk.

With the hiring of Clark, the manpower of the Signal Intelligence Service came to a grand total of seven, a number that would remain almost constant for the first seven years. From 1930 until 1937 the total annual budget of the SIS never exceeded \$17,400.

Friedman's first task, once he had trained his new assistants, was to set up an adequate training program to provide a sufficient reserve of officers knowledgeable in all aspects of cryptology in case of future hostilities. The result was the Signal Intelligence School. And on September 8, 1931, its first (and only) student arrived for classes. This was Mark Rhoads, a first lieutenant in the Signal Corps who had been carefully selected for the assignment.

Lieutenant Rhoads proved to be a good student, but even after a year there was much more for him to learn, so it was agreed to extend the course, making it a two-year program. As Rhoads entered his second year, a new student, First Lieutenant W. Preston Corderman, a redheaded Signal Corps officer, took his seat as the new first-year student.

Once the school began functioning smoothly, Friedman turned his attention to the blacker side of the organization: interception and solution. Here, however, he found the problems considerably more difficult than those encountered in setting up the school. In addition to there being a law (the Communications Act of 1934) with severe penalties for the interception of communications, there was also the problem of former Secretary of State Stimson's stern ban against such activities. How could one adequately train personnel in the fine arts of interception and analysis, Friedman questioned, if one was not first permitted to engage in interception and analysis? It was cryptology's classic paradox, a choice between the law and the profession.

As usual, the latter won, and in the summer of 1931 construction began on an experimental intercept station in the Washington, D.C., area. The site chosen was Battery Cove, Virginia, where the War Department maintained the remotely controlled receivers for its Message Center in the Munitions Building. Once established, the station began churning out intercept traffic for Friedman and his latter-day Black Chamber. In addition, intercepts began arriving from small radio intelligence detachments set up in Texas, the Panama Canal, and the Philippines.

During this period, Joseph Mauborgne, the veteran codebreaker

who was now a colonel in charge of the western United States for the Signal Corps, managed to acquire some automatic recording equipment and established his own intercept station in the basement of his California home. The tapes were sent to Friedman, who welcomed the helpful, if questionable, intercepts, apparently with one eye closed.

In 1933 Friedman's protégé, Mark Rhoads, set up the Provisional Radio Intelligence Detachment at Fort Monmouth, New Jersey. This unit spent most of its time engaged in research in the field of communications intelligence, although it did conduct some actual interception.

As a result of growing world tensions and apprehension over American involvement in another war, the SIS in November 1937 requested authorization to establish another intercept station at Battery Cove. The station, with receiving equipment to be located in the War Department Message Center, was needed to monitor the radio channel carrying the bulk of diplomatic traffic between Washington's Embassy Row and the commercial relay stations in New York. Also requested were two additional radio operators, who would be assigned to Washington to monitor communications during the twelve to fifteen hours of the day when the most "interesting" traffic was being handled.

The Signal Corps turned down the request primarily because by now the SIS was already receiving from other sources more intercept material than it could handle. In addition, there was a good likelihood that a new intercept station would be built at Fort Monmouth that would have the capability to monitor the same circuit. The station was, in fact, built the following year.

By 1938, in addition to the new station at Fort Monmouth, the Signal Intelligence Service had intercept bases in California, Texas, Panama, the Philippines, and Hawaii. Friedman would be sent the intercepted traffic once a week by registered secret mail.

Because of its strategic location, the station in Panama was considered one of the most important, and on January 26, 1938, the listening post was directed to begin scanning the ether twenty-four hours a day and to give first priority to diplomatic traffic between Rome and Tokyo. A secondary emphasis was to be placed on traffic between Berlin and Tokyo. In addition, "Abe" Sinkov, now in charge of the station, was ordered to monitor Japanese diplomatic traffic to and from Central and South America.

As the intercept activity increased, Friedman grew more worried about the illegality of the operations and the effect their disclosure might have. In order to protect the personnel with a record of official authorization, the assistant chief of staff for G-2 (Army Intelligence)

sent a memorandum on March 26, 1938, to the chief of staff, recommending authority "to maintain and operate in time of peace under strictest provisions to insure secrecy, such radio intercept and cryptanalytic services" as were "necessary for training purposes." Four days later, Secretary of War Harry H. Woodring penned his approval, and Friedman and the SIS were off the hook. The Communications Act of 1934, however, was still in effect.

Now operating under color of authority, the SIS was put in overdrive. By the-time German troops marched into Poland, on September 1, 1939, the SIS had increased its staff from seven to nineteen. When Japan struck Pearl Harbor, on December 7, 1941, the staff had grown to 331; by the time the war was over, the number had increased to over 10,000.

The increase in personnel had enabled the SIS to concentrate more heavily on the threat from the East. Friedman, who had been replaced several years before as head of the SIS so that he could give his full attention to the technical side of cryptology, began putting greater effort into the solution of the advanced Japanese systems.

Equally important, by 1939 the rivalry that had long marked relations between the Army and the Navy in the field of cryptology was at long last coming to an end. This "friendly competition," which had continued for close to two decades, not only resulted in duplication of effort, but, more seriously, gave rise to instances where one branch might unknowingly have the key to the other one's puzzle.

Like the Army, the Navy had long been involved in cryptology. Its beginnings can be traced back almost to the first wireless transmission from a Navy ship in 1899. During World War I, the Code and Signal Section of the Naval Communications Service handled cryptology, and in July 1922 it was assigned the organizational title OP-20-G, which, deciphered, meant that it was G Section (Communications Security) of the 20th Division (Office of Naval Communications) of the Office of Chief of Naval Operations (OP).

Two years later, in January 1924, a thirty-one-year-old Navy lieutenant, Laurance F. Safford, was ordered to establish a radio intelligence organization in the section. The Annapolis graduate established himself in Room 2646 of the Navy Department's ramshackle building on Constitution Avenue and began the time-consuming task of building the Navy's first intercept organization. It was a small unit in a large headquarters, but it did not lack dedication. "We were just a few then in Room 2646," one former officer recalled; "young people who gave ourselves to cryptography with the same ascetic devotion with which young men enter a monastery."

That young officer, Lieutenant Ellis Zacharias, after his seven-month

apprenticeship under Lieutenant Safford in 1926, left his monastic surroundings for the intrigue of Shanghai, where he became chief of an intercept post located on the fourth floor of the American consulate. Here he was well placed to learn as much as possible from Japanese naval messages.

By the late 1930s the Navy's cryptologic organization had grown to seven hundred officers and enlisted personnel, with eavesdropping posts in Washington state, Maine, Maryland, Hawaii, and the Philippines. There were smaller stations at Guam, California, Long Island, and Florida.

Intercepts received from the various listening posts revealed that Japan was using at least nine different cipher systems and that the most important appeared to be a machine system known as Angooki Taipu A, or Cipher Machine Type A, reserved for high-level diplomatic traffic. The system, put into use before 1932, was attacked by the SIS in 1935 and broken the following year, thus enabling the codebreakers to read practically every message to and from the Japanese Foreign Office.

A short time after the breakthrough, Friedman became concerned about the fact that in both internal correspondence and official reports the machine was referred to as the "A" machine, the same name by which it was known to the Japanese. He decided to give the various systems code names based on the colors of the spectrum. The color selected for Angooki Taipu A was Red.

In late 1938 and early 1939 the Japanese Foreign Office completed distribution of a new diplomatic cipher machine designed to replace their "A" machine. Known to the Japanese as Angooki Taipu B and to the SIS as Purple, the machine was far more complex than its Red predecessor; and on March 20, 1939, when the first Purple message was flashed between Warsaw and Tokyo, the pipeline began to quickly run dry.

The new system was as deep and mysterious as its chromatic code name implied. As a result, its solution was given the highest priority. At the time, the Signal Intelligence Service offices were located on the third floor of the Munitions Building in the rear section of the third wing. Above, construction workers banged and shouted while the walls shook from the incessant vibration of jackhammers as a fourth floor was being added. Nevertheless, the small team of codebreakers plodded ahead through the summer of 1940, alternately closing the windows and sweltering or opening them and risking deafness. Finally, as the summer was ending and the construction was near completion, fire broke out overhead and the offices were nearly drenched with water.

Despite it all, the team managed to put together a spaghetti-like maze of multicolored wire, contacts, and switches and come up with a magical contraption that, on September 25, 1940, issued its first totally clear, ungarbled text of a Purple message. The band of cryptologists had accomplished the impossible — they had created a perfect clone without ever having seen its twin.

By now the SIS consisted of the Signal Intelligence School; the 2nd Signal Company, which conducted the intercept operations; Section A (Administration), which took care of the paperwork and tabulating; Section B (Cryptanalytic), the largest, which turned out the finished intelligence product; Section C (Cryptographic), which designed the Army codes and conducted communications security operations; and Section D (Secret Ink), a small unit that was also known as the Laboratory Section.

Just down the street, in Room 1649 of the Navy Department building, OP-20-G performed its similar functions under the direction of the man regarded as the father of the naval cryptologic organization, Laurance Safford, now a commander. Under him were three subsections that formed the core of his operations: GX, which conducted interception and direction finding; GY, which handled the cryptanalysis; and GZ, which was responsible for translation and dissemination.

In all, the combined forces of Friedman's SIS and Safford's OP-20-G were very considerable, but they were also very unharmonious, each sacrificing the collective good in a race for the "credit" for a particular solution or the recovery of a particular key. Because both organizations very often shared the same intercept material as well as the means for breaking it, whenever an important message was read each would immediately rush a copy of the translation to the White House in an effort to impress the President. "The method of processing and disseminating the diplomatic messages that were read," reported a secret, high-level review board years later, "was both duplicative and unseemly."

At last, after lengthy negotiations and several tries, a compromise was reached between the Army and Navy whereby they agreed to exchange all diplomatic traffic from their ten or twelve listening posts so that both services could work on the traffic. But to prevent duplication of effort, it was resolved that the Navy would translate all Japanese diplomatic intercepts originating on odd days and the SIS would handle the even days. The Navy would send the results to the President; the Army would service the State Department.

Later, as the threat of hostilities in the Pacific grew more intense, the Navy decided to focus its entire cryptanalytic efforts on Japanese naval ciphers. It therefore hastily concluded a gentleman's agreement with the SIS, transferring to the Army COMINT (communications intelligence) unit its entire interest and capacity in all cryptanalytic fields other than naval and related ciphers. The idea was that the SIS would accept stewardship of the Navy's excess cryptanalytic cargo, exploit it to the best of its ability during the war, and return it, presumably enriched, when the war was over.

In December 1941 American COMINT more closely resembled a medieval feudal state than the empire it is today. The SIS was responsible for military traffic, although no military traffic was being produced. OP-20-G secretly handled naval traffic. Together, on a daily oddeven basis, they were responsible for diplomatic traffic. Both the Coast Guard and the FBI claimed authority for "spy" or clandestine traffic, and the Federal Communications Commission's Radio Intelligence Division considered itself responsible for radio interception and direction-finding.

With regard to the finished, translated product, the diplomatic traffic was being furnished in full to the War, Navy, and State Departments; the clandestine traffic was being furnished in full to the War and Navy Departments and in part to the State Department and FBI. The Navy traffic was available in full only to the Navy Department, but summaries were furnished to the War Department for use on a high level only.

Equally cumbersome was the slow and complicated method of delivering the products, which involved having a courier hand the message to the official and then take it back with him once it had been read. Briefings were entirely oral so that no COMINT material on paper would ever be left behind. The system was designed to ensure a hermetic seal of security, but at the sacrifice of speed and understanding.

The system was a hodgepodge. No one was responsible for a continuous study of all material. Recipients would read their portion of intercepts, and then it would then be whisked away, never to be seen again. There was very little that could be done to put together all the pieces in a cohesive form, or to correlate them with information available from other sources. Though the technical side of COMINT, particularly in the breaking of Purple, had been performed with genius, the analytical side had become lost in disorganization.

In the early morning hours of the first Sunday in December 1941, the Navy's listening post at Bainbridge Island in Puget Sound, Washington, intercepted several messages transmitted between Tokyo and Washington, D.C., over the commercial circuits of Mackay Radio & Telegraph Company. Bainbridge in turn retransmitted them to OP-

20-GY in Washington, where watch officer Lieutenant (junior grade) Francis M. Brotherhood was heading toward the end of his 11:00-to-7:00 shift.

It had been a busy weekend. Less than twenty-four hours earlier, Bainbridge had snatched from the ether thirteen parts of what appeared to be a fourteen-part message from Japan's Foreign Office to its Washington embassy. The long, rambling message, encrypted in Purple, was a reply to a U.S. diplomatic note transmitted eleven days earlier, in which Secretary of State Cordell Hull called on Japan to withdraw all its forces from China and Indochina in return for a U.S. promise to release Japanese funds and resume trade.

Throughout the long night, Brotherhood wondered whether there really was a fourteenth section. Now, as he watched the Purple machine transform the intercept into English, he had his answer: Japan had decided to break off negotiations with the United States.

With the recovery of the last section, Brotherhood typed the second, shorter intercept into the Purple machine, but this one emerged in Japanese, which called for translation next door at the Signal Intelligence Service. The clock on the wall was now reading a few minutes past 5:00 A.M.

At seven-thirty, Lieutenant Commander Alwin D. Kramer, chief of OP-20-GZ, the translation section, arrived after a short night's sleep. He had been up until past midnight delivering the previous thirteen sections of the Tokyo message, and now he saw what he had hoped for — the final section. A short while later, he slipped the message into his well-worn, double-locked briefcase and began his rounds, which included the White House and Secretary of the Navy Frank Knox.

Over at SIS headquarters, the Army messenger had also begun his rounds with the fourteenth section. His list included such officials as Secretary of State Hull and Secretary of War Stimson. Soon after he departed, Colonel Rufus Bratton, chief of the Far Eastern Section of Military Intelligence, arrived at his SIS office and immediately spotted the final section. As he was reading the message, he was handed a copy of the second, shorter message.

Bratton's dark eyes widened. "Will the Ambassador please submit to the United States Government," the message read, "(if possible to the Secretary of State) our reply to the United States at 1:00 P.M. on the 7th, your time." The significance struck him at once. Japan had ordered its ambassador to break off negotiations with the United States precisely at 1:00 P.M. on a Sunday afternoon. It was the penultimate act before war. It was now about 9:00 A.M.

Nine o'clock in the morning in Washington was 3:30 A.M. in Hawaii. A scant 250 miles north of Diamond Head, Admiral Nagumo's strike force of six carriers, supported by battleships and cruisers, drifted gently at anchor.

Bratton began a frenzied attempt to locate Army Chief of Staff General George C. Marshall. He picked up the telephone and called his quarters at Fort Myer, but his orderly told him that the general had gone horseback riding.

"Please go out at once," Bratton frantically told the orderly, "get assistance if necessary, and find General Marshall, ask him to — tell him who I am and tell him to go to the nearest telephone, that it is vitally important that I communicate with him at the earliest practicable moment." The orderly, Sergeant Aguirre, left at once, but the search was in vain.

It was some time later that Marshall arrived back at his quarters and found the message to call Bratton. In urgent tones, Bratton told Marshall of an important message he should read, and, since it was now between ten and ten-thirty, he offered to drive out with it immediately. Marshall, however, preferred to drive down to the office himself.

At about the same time, Lieutenant Commander Kramer returned from his courier rounds, where he had displayed the final part of the Tokyo message. Now, for the first time, he saw the translation of the second message, and its meaning became instantly clear. Magnifying his alarm were several other messages, particularly No. 910, which ordered the embassy to destroy all remaining cipher equipment and machine codes.

By now Kramer was almost running out the door. Before he left, he had determined that zero hour for the attack, or 1:00 P.M. in Washington, would be the middle of the night in the Far East and would be just after dawn in Hawaii. He first headed down the passageway to Admiral Harold Stark's office. The chief of Naval Operations was already in conference discussing the ramifications of the final section of the Tokyo message he had received just a short time before. Kramer pointed out to an aide the significance of the deadline and then raced down Constitution Avenue toward the ornate State Department building, which also housed the War Department. The Secretaries of State, War, and Navy were also conferring, and Kramer hurriedly indicated the import of the final messages. Then he rushed down the long steps and across the lawn to the White House.

Marshall had finally arrived at his office and slowly, carefully, began reading the fourteen pages, starting with page one. Bratton tried to

get the general to go immediately to the one o'clock delivery message, but Marshall could not be budged.

It was now about 11:00 A.M., almost six hours after the giant ear on Bainbridge Island had first snared the prophetic message, and all of Washington's senior elite had read it. There were two hours to go.

As Marshall finished the last message, its ominous impact finally struck him. Less than an arm's reach away was a "scrambler" phone by which he quickly could have been in contact with Major General Walter Short in Hawaii. But Marshall considered this method too risky when dealing with information as sensitive as Purple intercepts. Scrambling was far from a totally secure procedure; it had in the past succumbed to interception.

Instead, the warning message was sent to the War Department's Message Center, where the communications officer indicated that it would be in the hands of the recipients in less than half an hour. But as a result of poor atmospheric conditions, the circuit to Fort Shafter in Hawaii was out, and the message was instead sent by considerably less direct commercial channels, finally appearing on a printer in RCA's Honolulu office at 7:33 A.M.

The message General Marshall had instructed to be sent by "the fastest safe means" was then slipped into an envelope marked simply "Commanding General Hawaiian Department Fort Shafter, T.H." and placed unceremoniously in its proper pigeonhole for later delivery.

At 7:55 A.M., the first bomb smashed into a seaplane ramp on Ford Island in Pearl Harbor. Before the last bomb whistled down through the black and orange sky two hours later, Americans would give their lives at the rate of almost thirty a minute.

Nearly two hours after that final fatal explosion, Tadao Fuchikama, a young Japanese messenger for RCA, entered Fort Shafter. A few minutes later, he handed the envelope marked "Commanding General Hawaiian Department" to an officer in the Signal Division, got back on his motorcycle, and headed home, his last delivery of the day now completed. At 2:40 P.M. the signal officer passed the message to the decoding officer, and twenty minutes later, fifteen and a half hours after the ominous one o'clock delivery message was first liberated from the heavens over Bainbridge Island, Marshall's warning at last reached a devastated General Short. It was now yesterday's news.

Disorganization and divided responsibility had cost America dearly. It was up to the Secretary of War to turn chaos into order and discord into teamwork.

It is one of cryptology's supreme ironies that the man who now believed that too little attention had been shown the intercepted Japanese diplomatic traffic was the same man who a dozen years earlier had slammed closed Herbert Yardley's Black Chamber with the statement "Gentlemen do not read each other's mail": Henry L. Stimson. The situation, however, had changed. "In 1929," Stimson later wrote, "the world was striving with good will for lasting peace, and in this effort all the nations were parties." Then, speaking in the third person, he continued, "Stimson, Secretary of State, was dealing as a gentleman with the gentlemen sent as ambassadors and ministers from friendly nations." Now, as Secretary of War, the gentleman had turned warrior.

Within a few weeks after the Pearl Harbor disaster, Stimson had concluded that the entire field of communications intelligence was in need of a total re-evaluation, and he offered the task of performing it to Alfred McCormack, a prominent Brooklyn-born lawyer and one of the leaders of the New York Bar. On January 19, 1942, six days after his forty-first birthday, McCormack was appointed special assistant to the Secretary of War, with a mandate to examine closely the entire spectrum of COMINT, from the moment of intercept to its use in the hands of the final consumer, and to determine how best to squeeze from it every ounce of benefit.

Among the most immediate problems, McCormack soon discovered that:

- intercept facilities were extremely limited;
- arrangements for transmitting material from the point of intercept to the cryptanalytic center were hit-or-miss;
- there was a critical shortage of translators;
- there were neither sufficient personnel nor adequate procedures for studying and checking the translated product to derive the maximum degree of intelligence;
- the method of presenting the intelligence to the responsible authorities in Washington was ineffective; and
- there was no arrangement for getting such intelligence to commanders in the field promptly and in a manner that would ensure security.

By March McCormack had reached a number of broad conclusions. The upshot was the formation of a separate branch of the War Department's Military Intelligence Service to take the raw intercepts, synthesize them with information from all other sources, and put everything together in clear, concise, and timely reports. The key words would be evaluation and analysis.

Named chief of the Special Branch, as the top secret unit was called,

was Colonel Carter W. Clarke, a Signal Corps officer who had assisted McCormack in his research on COMINT. McCormack himself was given a direct commission as a full colonel and entered active duty as deputy chief under Clarke.

The new chief's first few months were spent trying to urge the Signal Corps to expand the Signal Intelligence Service and broaden the coverage by increasing the number of intercept stations. The effort was successful, and the SIS soon moved from its cramped quarters in the Munitions Building to a secluded, spacious former girls' school across the Potomac in Arlington, Virginia. Known as Arlington Hall both before and since, the quiet estate was made up of several dozen brick and wood-frame buildings that rambled in every direction. It was, however, ideally suited to accommodate a rapid expansion concealed from the prying eyes of foreign agents.

Several months later, the intercept arm of the SIS, the 2nd Signal Service Battalion, moved even farther south, to the tree-covered Vint Hill Farms in Warrenton, Virginia. In October 1942 the Cryptographic School, successor to the Signal Intelligence School, also moved to Vint Hill Farms Station, where for the rest of the war it trained Army men and women in all phases of cryptology.

During this period, as the reorganization was taking place, the SIS began suffering from acute identity crisis; its name changed almost weekly. From 1929 until 1942 it had been called the Signal Intelligence Service, but in July and August it went from SIS to Signal Intelligence Service Division, then Signal Security Division, then Signal Security Branch, and finally the Signal Security Service, which it managed to keep until July 1943, when it became the Signal Security Agency. When the war ended, the name was changed again, to Army Security Agency.

Soon after the SIS reorganization began, Clarke turned his attention to organizing his Special Branch, which would turn the intercepted, deciphered, and traffic-analyzed products of the SIS into finished intelligence.

Clarke organized the branch into a small headquarters staff and several Area Sections, which divided along broad geographical lines. They collected, studied, and analyzed the intercepts and other information, and developed the results into spot reports and long-term studies. Also added was a Reports Section, which was formed to scan all incoming traffic, assign it to the appropriate Area Sections, and assist in producing the reports.

By far one of the most significant contributions of the Special Branch was the development of a carefully prepared daily publication carrying

all of the important spot intelligence gleaned from each day's batch of messages. Its name reflected the sorcery required to produce it: the Magic Summary.

During the summer of 1943 a breakthrough was at last made into the Japanese military traffic. Until then, no Japanese Army system had been broken, only the Navy codes and the Purple diplomatic system. The first break, in March, was made by the Wireless Experimental Center, the British COMINT unit in India. By June the first decoded and translated messages were available for study.

Because of the increased flow of traffic, Clarke revamped his Special Branch into three streamlined sections. The A Section took over responsibility for the diplomatic and clandestine material and for the production of the Magic Summary. Among the items produced were reports of personal interviews with Hitler and Mussolini in which the Axis leaders discussed the future of the war effort and whether they were prepared to extend an olive branch to one or another of the Allied powers.

Development of intelligence derived from the Japanese Army traffic went to B Section; C Section, originally code-named Bunker Hill, studied German military traffic obtained from the British.

Despite the accomplishments of Clarke's Special Branch, which were manifold, the organization suffered a serious handicap: it was not able to exercise any real operational control over the Signal Security Agency. Such matters as what circuits were to be monitored, in what order the traffic was to be sent for cryptanalysis, which systems were to be attacked first, and the priority of material chosen for translation were not within its domain. The brain of America's COMINT giant had no control over its body.

The adverse results of this administrative malfunction were numerous. The SSA, which was under the Signal Corps, was never able to view the "big picture," since its role consisted primarily of intercepting, solving, and translating the material. The Special Branch, on the other hand, was under G-2 and was principally an analytical organization with no operational control. Therefore, the SSA would often concentrate its intercept facilities on circuits that were already covered, like transmitters in Southeast Asia, Malaya, and South China, instead of on potentially more productive areas, like the Japanese Home Islands, Korea, Manchuria, and North China. Likewise, the SSA continually ignored Special Branch recommendations to give a high priority to the solution of certain medium- and low-level systems believed important in Japanese shipping, instead of emphasizing only the high-level systems.

In June 1944 the Special Branch was reorganized into a more homogeneous organization within G-2, and in December, in a major power grab, G-2 wrested operational control of the prized Signal Security Agency from the Signal Corps.

As the war began grinding to a close, attention turned to the role of COMINT during peacetime. In early August 1945, W. Preston Corderman, now a brigadier general and for the past eighteen months chief of the SSA, created a postwar planning board to chart the future of the organization. The timing proved appropriate. Two days later "Little Boy," a long, black, nine-thousand-pound device with a square tail, hurtled down through the sky over southern Japan. At exactly fifteen minutes past eight o'clock on the morning of August 6, 1945, Little Boy reached critical mass, and the city of Hiroshima vaporized. Three days later, "Fat Man," another heavy, square-tailed device, this one with an obese, bulbous shape, turned the city of Nagasaki from a solid into a gas.

It has been estimated that the cost of COMINT during World War II was approximately a half billion dollars annually. Yet even if that figure were tripled, COMINT still would rank as possibly America's best-paying investment. Admiral Chester Nimitz rated its value in the Pacific as equivalent to another whole fleet; General Thomas Handy is reported to have said that it shortened the war in Europe by at least a year.

In the Pacific, COMINT located the Japanese fleet on its way to the Coral Sea and again en route to Midway in 1942, enabling the U.S. fleet to mass the carriers for the battles that are generally regarded as the turning point of the war against Japan. In 1942 COMINT also revealed the critical Japanese decision not to join Germany in its war on Soviet Russia. In 1944 it helped pick the soft spots for the island advance, often showing where the Japanese expected to be attacked and where their troops were massed.

Throughout the war, COMINT told how many ships Japan had, where they were, and when they were lost. While the Germans continued to blame an imaginary direction-finding device for their high U-boat losses, COMINT craftily plucked the subs' locations from the ether when the U-boats carefully reported their positions each night to the German Admiralty.

In the land war, COMINT read Rommel's intentions in Africa so well that the Desert Fox, finding himself often outmaneuvered, guessed the truth. But when he confided his suspicions to Berlin, he was summarily informed by the German High Command that such things were not possible. And before D Day in France, COMINT

told where Von Rundstedt assumed the main Allied attack would come, as well as some of Berlin's replies brushing off his good advice, presumably in favor of Hitler's intuition.

Even before Pearl Harbor, COMINT drawn from Japanese sources had contributed to the Allied effort in Europe by giving advance warning of the German decision to attack Russia. Baron Hiroshi Oshima, Japan's ambassador in Berlin, proved a veritable mine of information as he faithfully communicated to Tokyo what was confided to him by the German leaders.

COMINT also provided the only reliable measure of how fast the Japanese were losing their will to resist. It supplied a thorough and immediate record of the peace feelers that the Japanese asked Ambassador Naotake Sato in Moscow to send to Washington through the Russians, as well as their explanations to him of how the decisions were being reached and on what points further concessions would be made. Throughout 1945, COMINT provided the United States with Japan's instructions to her principal negotiator, often before the Japanese code clerks in Moscow could put the message on Sato's desk.

Finally, COMINT's value stretched even beyond the Instruments of Surrender. On August 11, 1945, Major General Clayton Bissell, chief of G-2, sent a memorandum to General Marshall advising him that the long-range interests of both the United States and Great Britain would be best served by avoiding any physical compromise of Japan's diplomatic systems, especially their Purple system, during the postwar period. It was hoped that Japan, in splendid ignorance, would continue to use the same systems, thus allowing the United States and Britain to maintain uninterrupted surveillance through their cryptanalytic keyhole.

On September 2, as the final drama of the war took place aboard the battleship *Missouri*, America's COMINT giant was suddenly placed on a crash diet. Most seriously affected was the Navy, which, through the gentleman's agreement made at the beginning of the war, had awarded temporary custody to the Army of all interest in worldwide intercept and cryptanalysis in order to concentrate on Japanese naval traffic and codes. Now that the war was over the Navy was, in effect, out of business, and it sought repossession.

As viewed by the Army, however, the trusteeship had gradually ripened over the years into full ownership, and it considered absurd any shifting of pieces of the worldwide COMINT set-up merely for the purpose of "giving the Navy something to do." Nevertheless, the two services eventually adopted a compromise policy.

Although the size and budget of America's COMINT community was rapidly shrinking, the top-heavy bureaucracy that attempted to control it was rapidly enlarging. In 1942, as the Coast Guard, the Federal Communications Commission, and other agencies attempted to enter the codebreaking business, the Joint Chiefs of Staff recommended to President Roosevelt that he issue a presidential memorandum limiting cryptanalytic activites to the Army, Navy, and the FBI. Such an action, they argued, would both conserve COMINT resources and promote security. Roosevelt agreed, and, following the issuance of the memorandum, a standing committee was established for coordinating and defining the spheres of responsibility of the ever-feuding Army and Navy.

As the war progressed, the need for even closer relationships became obvious, and in May 1944, an informal Army-Navy Communications Intelligence Coordinating Committee (ANCICC) was established. In March 1945 this matured into the formal Army-Navy Communications Intelligence Board (ANCIB), which had as its desired purpose further cryptanalytic cooperation. But the Navy, always fearful of any effort that might encroach on naval COMINT, offered little assistance.

Meanwhile, the State Department had set up its own Special Projects Staff to handle the flow of COMINT into the department, so it, too, sought admission to the fraternity. By December, then, the group had once again changed its name, this time to the State-Army-Navy Communications Intelligence Board (STANCIB).

Next at the door were the FBI and the newly formed Central Intelligence Group, and in June 1946 STANCIB became the United States Communications Intelligence Board (USCIB). The following year the Air Force became the sixth and final member.

On July 1, 1948, the board promulgated the first "charter" for the COMINT community, National Security Council Intelligence Directive (NSCID) No. 9. Established by the National Security Council, the NSCIDs function as top secret bylaws for the intelligence community. NSCID No. 1, for example, sets out the basic responsibilities for the director of Central Intelligence. The NSCIDs are, in turn, supplemented by Director of Central Intelligence Directives (DCIDs).

Titled "Communications Intelligence," NSCID No. 9 formally established the USCIB "to effect the authoritative coordination of Communications Intelligence activities of the Government" and "to advise the Director of Central Intelligence in those matters in the field of Communications Intelligence for which he is responsible." But the directive also stated that unanimous agreement of all twelve members

(two from each agency) was required for decisions and that the board must keep hands off the internal workings of member COMINT agencies. Thus, the USCIB was nearly impotent from birth.

By far the most amazing section of the NSCID, however, dealt not with organizational structure but with the unique status of COMINT within the government:

The special nature of Communications Intelligence activities requires that they be treated in all respects as being outside the framework of other or general intelligence activities. Orders, directives, policies, or recommendations of any authority of the Executive branch relating to the collection . . . of intelligence shall not be applicable to Communications Intelligence activities, unless specifically so stated and issued by competent departmental or agency authority represented on the [United States Communications Intelligence] Board. Other National Security Council Intelligence Directives to the Director of Central Intelligence and related implementing directives issued by the Director of Central Intelligence shall be construed as non-applicable to Communications Intelligence unless the National Security Council has made its directive specifically applicable to COMINT. [Emphasis supplied.]\*

Thus, should an Attorney General or even the President issue a public ban on all forms of electronic surveillance by the federal government, for example, the COMINT community would be free to ignore it, since it was never "specifically so stated" that the order applied to the supersecret COMINT community.

Also significant were the definitions. Although communications intelligence was defined as "intelligence produced by the study of foreign communications," the term "foreign communications" was defined in the broadest of contexts. It took in "all telecommunications and related materials . . . of the [foreign] government and/or their nationals or of any military, air, or naval force, faction, party, department, agency, or bureau of a foreign country, or of any person or persons acting or purporting to act therefor . . ."

But the definition did not stop there. It also embraced virtually all communications entering or leaving the United States, as long as they could be connected in any way with certain very broad subject areas. The definition of "foreign communications," the NSCID continued, will also include "all other telecommunications and related material of, to, and from a foreign country which may contain information of military, political, scientific or economic value." (Emphasis supplied.)

<sup>\*</sup> The words "Communications Intelligence" were inserted by the author because they were deleted from the original. See notes.

Since nearly all communications — telephone calls, telegrams, telexes, facsimiles, or any other form — may logically contain information in at least one of the general categories, the NSCID gave the COMINT community the power to eavesdrop at will on the entire U.S. international telecommunications system. It was an authorization clearly at odds with Section 605 of the Communications Act of 1934, which provided for secrecy of communications.

Despite the reorganizations, the directives, and the high-level boards, the COMINT community was as fractionized in 1948 as it ever was. The Army, with its large civilian component and vast experience with the nonmilitary aspects of COMINT, was generally in favor of some sort of consolidation; the Navy, on the other hand, was as reluctant as ever to surrender any of its COMINT sovereignty; and the Air Force wanted only to be left alone to build up its network of far-flung listening posts.

In August of 1948, Secretary of Defense James V. Forrestal finally created a board, under the chairmanship of Rear Admiral Earl Everett Stone, then director of Naval Communications, to study the COMINT situation within the defense establishment and recommend a solution. Composed of representatives of all military interests in the COMINT family, the Stone Board went round and round for several months, but wound up submitting a divided report — the Navy and Air Force both opposed to consolidation, the Army advocating it with the exception of interception and decentralized field processing stations. Unhappy with the results, Forrestal simply locked the report in a safe and hoped the problem would go away.

With Forrestal's resignation in March 1949, Louis A. Johnson assumed the office — and, along with it, the problem of the Stone Report. To help him resolve it, he brought in General Joseph McNarney, who eventually decided on a middle way. His plan required a merger but left each of the three services the right to maintain its separate COMINT organization.

On May 20, 1949, therefore, Secretary Johnson issued a top secret directive establishing the Armed Forces Security Agency and placing it "under the direction and control of the Joint Chiefs of Staff." Its mission was "to provide for the placing under one authority the conduct of communications intelligence and communications security activities . . . within the National Military Establishment, except those which are to be conducted individually by the Departments of the Army, Navy and Air Force."

Four days after they received the Secretary's directive, the JCS set up an ad hoc committee to lay out plans for the formation of the new agency. One of its first actions was to find a director; they settled on Admiral Stone, who had chaired Forrestal's COMINT review panel. The fifty-three-year-old Milwaukee native had spent almost his entire thirty-two-year career in communications and held a master's degree in communications engineering from Harvard.

Stone's selection to head the new agency, however, presented certain problems, especially for the Navy. Because even the fact that such an agency as AFSA existed was considered top secret, no announcement could be made of Stone's appointment. He was, for all intents and purposes, expected to disappear officially from public view. But he had to be replaced as chief of Naval Communications, a not insignificant position, and it was highly likely that someone might just wonder what had happened to the last chief.

After several months of nervous haggling between the services, the final recommendation on release of the information was sent by General Omar Bradley, head of the JCS, to Secretary of Defense Johnson on August 31. It called for a statement by the director of public information containing the not very informative phrase "Rear Admiral Stone has been assigned to duty with the Joint Chiefs of Staff." The information director was further advised that even that simple statement was not to be released unless someone actually inquired about Stone. A few days later Johnson stamped his approval on the recommendation, and AFSA thus became the first government agency to be formed in total secrecy.

By the time the order took effect, however, the issue had already become moot. Stone quietly assumed office on July 15, after being relieved as DNC by Rear Admiral John R. Redman without the slightest notice.

The directive that created AFSA also created its governing board, the Armed Forces Security Agency Council (AFSAC), made up of the two USCIB members from each of the services and one additional member from each service. The director of AFSA, who acted as permanent chairman, brought the total membership to ten.

Although the directive never gave AFSAC any control over AFSA except to make recommendations to the JCS regarding COMINT and to coordinate joint cryptologic military requirements, the council immediately set out to grab as much power as it could from the newborn agency. On September 1, the council submitted to the JCS a draft directive establishing AFSAC as "the agency of the Joint Chiefs of Staff charged with insuring the most effective operation" of AFSA and giving the council the responsibility to "determine policies, operating plans and doctrines" for the agency as well as authority to forward to the director of AFSA "for implementation, without reference to the Joint Chiefs of Staff, its unanimous decisions on matters which

it determines not to involve changes in major policies." As a highlevel review later declared, "For all practical purposes the directive made AFSAC . . . the boss of AFSA."

Within a short period the directive was approved, and COMINT was placed, in essence, back at square one — under the three-headed control of the services. The goal of unification under a single control had once again succumbed to interservice rivalry.

Probably nowhere was the confusion and disarray of America's COMINT establishment more evident than in the method used for selecting targets. Initially, all targeting originated with the USCIB's Intelligence Committee, a group made up of representatives of the CIA, FBI, State Department, and the intelligence units of the Army, Navy, and Air Force. Once a month the representatives would receive a chartlike form known as the USCIB Intelligence Requirements List, which was divided by countries and under each country listed a variety of target items (advanced weapon systems, troop movements, and so on). The members would then rate the priority of each target on a scale of 1 to 5, with 5 being the highest. The results of the voting would then be forwarded directly to the office of the director of AFSA, where they would be tabulated and assigned to the various intercept stations.

The major problem with the system, though, was its use of overly broad target items and the lack of any mechanism to allocate them to specific communications channels. The system also failed to convert intelligence needs into clear COMINT targets. The most dramatic evidence of these weaknesses was the failure of COMINT to warn of the Korean invasion.

During the seven months that preceded the June 25, 1950, attack, the various intelligence agencies were becoming increasingly concerned about the possibility of a Soviet move against South Korea. On April 12, at a meeting of the Watch Committee, a secret interagency group set up to examine all sources of intelligence for warnings of Soviet moves against the non-Soviet world, one of the six items studied was a report relayed by the Commander-in-Chief, Far East Command, which stated that "the North Korean Peoples' Army will invade South Korea in June of 1950."

The minutes of the meeting held on June 14, less than ten days before the attack, showed the committee's continuing interest in Korea:

A list of sensitive areas for consideration by the Watch Committee as potential sources of conflict with the USSR was presented by the Chairman (a CIA man). These areas, arranged in the Chairman's estimate

of the order of their explosiveness in the near future (six months to one year) are: Indo-China, Berlin and West Germany, Iran, Yugoslavia, South Korea, the Philippines and Japan. Members of the Watch Committee were asked to present alternative lists or rearrangements of this list at the next meeting, 28 June 1950.

Despite the definite indications that Korea was a highly likely area of conflict, and the fact that the CIA apparently considered South Korea to be the fifth most volatile area in the world, these concerns were never communicated to AFSA through the USCIB's Intelligence Requirements Lists.

During the same seven months, for example, the USCIB submitted nine separate lists. On the highest-priority list (List A), Korea was mentioned only once out of 124 specific priority items, and ranked twelfth and last in frequency of mention among the areas of the world. On the second-priority list (List B), Korea was mentioned only 5 times out of 277 separate items and ranked fifteenth out of eighteen areas mentioned. Even on the lowest-priority list (List C), Korea came up only once out of ninety separate items and was tied for thirteenth and last place in frequency of mention.

Thus, as a result of the failure by the intelligence agencies to communicate to AFSA the true extent of their growing concern over the Korean problem, the agency was poorly prepared to handle Korean traffic when the invasion took place.

The failure and general dissatisfaction with the list procedures forced Admiral Stone to protest to AFSAC on August 18 that he was in a position of having to direct the intercept and processing effort of AFSA without formal integrated guidance from the services as to their intelligence requirements. On October 2, therefore, AFSAC agreed to establish the Intelligence Requirements Committee, comprising the representatives of the military intelligence offices: Office of Naval Intelligence (ONI), Army Intelligence (G-2), Air Force Intelligence (A-2), and AFSA itself. The new AFSAC Intelligence Requirements Committee (AFSAC/IRC) assumed the responsibility for targeting and setting priorities primarily for military traffic, and the United States Communications Intelligence Board's Intelligence Committee (USCIB/IC) confined itself primarily to nonmilitary traffic.

Under the new procedures, both AFSAC/IRC and USCIB/IC were to submit their recommendations to AFSA. They would then go to an Intercept Priorities Board (IPB) made up of the heads of the various branches of AFSA's operations organization, AFSA-02, and always chaired by the chief of AFSA-02.

The IPB, in turn, had about ten Special Intercept Priorities Groups (SIPGs) set up within the various branches of AFSA-02. Before each monthly IPB meeting, the SIPGs would prepare and submit their own recommendations, based on the interests and needs of the various processing units.

After it had received the recommendations of the two intelligence committees and the various SIPGs, the IPB would lay out the actual intercept plan for the coming month. At this point the requirements went to AFSA-28, the Intercept Division of the Collection Group of AFSA, which translated them into circuits and links to be intercepted and monitored by the numerous listening posts.

Once the traffic had been intercepted, the general rule was that processing that could be accomplished effectively within twenty-four hours after intercept was to be done at the point of intercept within the theater, further processing that could be done within forty-eight hours was to be done at the theater level, and all other processing normally would be done back in Washington at AFSA. But regardless of where the processing was done or which service did it, one copy of everything intercepted would be sent back to AFSA.

At AFSA, the reams of cleartext and cryptanalyzed ciphertext would first be attacked by low-grade personnel with little or no knowledge of the language. They were trained merely to scan the traffic for various words or patterns of words, and then, almost by reflex, to file the message in the appropriate bin.

Following the initial scan, expert linguists in eleven reading panels would make the second sort, reducing the bulk again by some 20 to 25 percent and cross-filing what remained into about ninety general categories. It was this group which would also select the individual texts to be translated verbatim and disseminated to consumers — a final distillation of less than 1 percent. Nothing, however, that resulted from the second sort was destroyed; these messages would be kept available for further study or for subsequent translation.

Finally, there were the "beachheads." These were groups of intelligence analysts and liaison personnel stationed at AFSA by the COMINT consumers. They would study the intercepts in their unpublished state both for the sake of speed and to help reduce the bulk of finished COMINT. Among the consumers were the three service intelligence agencies — ONI, G-2, and A-2 — each with about a hundred people. Another was the FBI, which would submit long watch lists and which received about seven thousand items a month (or about half of the total AFSA product). One copy of each item would be delivered to FBI headquarters. Other consumers were, of course, the CIA and the State Department.

Although the beachheads were physically within the AFSA compound and the personnel attached had full access to all levels of the AFSA operation, they were not under AFSA control.

On July 14, 1950, the United States Communications Intelligence Board met for the fifty-third time. Under the chairmanship of State Department code chief W. Park Armstrong, Jr., the board took up the invasion of Korea and unanimously agreed that "the present scale of communications intelligence effort falls far short of meeting total requirements or even enabling the United States to exploit available communications information to its full potential."

As a result, Admiral Stone easily won authorization to increase AFSA's civilian manpower by fully 50 percent, bringing the total to 4,921. The number of military personnel attached to AFSA also rose, from 1240 to 1948, and the number of intercept positions doubled, from 903 to 1821. One year later, AFSA civilian strength had risen to 6613 and the overall strength to over 8500, with a budget of \$60.9 million. But despite the numbers and the dollars, the agency spent most of the war trying to catch up.

Disappointment over the quality of COMINT during the war reached all the way to the White House. President Truman, on December 13, 1951, directed Secretary of Defense Robert A. Lovett and Secretary of State Dean G. Acheson to establish a committee to survey America's communications intelligence resources and to take whatever corrective actions they found necessary. Fifteen days later the two secretaries appointed George Abbott Brownell, fifty-three, a Harvardeducated lawyer, former minister to India and Mexico, and most recently a special assistant to the Secretary of the Air Force, to head a panel of distinguished citizens with a mandate to find a cure for the ailing COMINT establishment.

Over the next six months the Brownell Committee interviewed forty-three witnesses, held fourteen days of executive hearings, and poked its head deeper into the super hush-hush community than had ever been attempted before. In a 239-page report issued on June 13, 1952, the committee pointed a finger directly at the services and the Joint Chiefs of Staff for the disarray of the COMINT community and the failure of AFSA:

In theory the Joint Chiefs of Staff exercise direction over AFSA. In practice this direction is taken over almost entirely by their agency AFSAC, which is an interservice committee acting under the rule of unanimity. Its members devote much of their time in frustrating detail to safeguarding individual Service autonomies. The Director of AFSA is obligated

to spend much of his energy on cajolery, negotiation, and compromise in an atmosphere of interservice competition. He has no degree of control, except by making use of such techniques, over the three COMINT units operated by the Services. In fact, he is *under* the control of the three Service units, through their representation on AFSAC. His only appeal is to the same three Services sitting as the Joint Chiefs of Staff. [Emphasis in original.]

Among the numerous proposals the committee studied for strengthening the COMINT system was the CONSIDO plan. Originated several years earlier but never acted on was a plan that would have assigned to AFSA all responsibilities for both the collection and processing of COMINT, but created an entirely separate agency to analyze, evaluate, and disseminate the product — a Consolidated Special Information Dissemination Office, or CONSIDO.

Under the CONSIDO proposal, the new, independent organization would be composed of analysts of the various COMINT consumer agencies reporting to a chief of CONSIDO, who would have absolute control over all evaluation and distribution of COMINT. Although the committee rejected this two-headed concept, it did show considerable interest in the idea of a single, central agency combining all aspects of the COMINT operation: collection, processing, evaluation, and distribution. Such a system, the committee noted, had been used by the British since 1920. Among the advantages would be better control and more limited distribution of the intelligence: "It would drastically cut back, for example, the current practice of monthly printing of some two million sheets of code-word paper to gratify the 'minimum' demands of the customers."

The committee also looked with favor on a CONSIDO variation that would make the head of a centralized COMINT agency the nation's true intelligence chief by having collateral intelligence from consumer agencies flow *into* the final COMINT product rather than having the bulky raw COMINT flow outward to the consumers. Such an idea, however, would most likely have found little support from the director of Central Intelligence.

Although the committee saw merit in various aspects of the CON-SIDO plan, it settled instead on a less radical, yet still strongly centralized approach. Its recommendations called for the director of AFSA to be given almost total operational control over all United States COMINT collection and processing activities. He would be authorized, though, to delegate portions of that control to the various services for their close support of forces in the field. The key was

that the control would flow downward from the director of AFSA. With regard to the selection of an AFSA chief, they recommended that initially the position be held by a career military officer of at least three-star rank appointed, preferably, for a term of six years but not less than four years, and that his deputy be a career civilian. But the committee also made it clear that it saw no problem with a civilian holding the top spot: "If, as things develop, it should ultimately appear that a civilian could better qualify for the position, it is strongly recommended that no sense of tradition or vested military interest be allowed to stand in the way of his appointment."

From the very beginning the committee realized that the major problems affecting the nation's COMINT system originated not from within AFSA but from above, and it was there that they looked for the most drastic restructuring.

In the belief that COMINT authority should emanate from the highest office, the committee recommended that the President issue a presidential memorandum appointing the Secretary of Defense as the executive agent of the government for COMINT and making the director of AFSA responsible directly to the Defense Secretary rather than to the Joint Chiefs. The memorandum was to leave no doubt as to the authority of the director of AFSA: "This memorandum should provide that . . . the Director of AFSA is responsible for accomplishing the mission of AFSA, and that for this purpose all COMINT collection and technical processing resources of the United States are placed under his operational control."

Then the committee turned its attention to its number one target — AFSAC: "AFSA is now under the Joint Chiefs of Staff. The Joint Chiefs as a body pay little direct attention to the organization and leave its supervision almost entirely to their agent, AFSAC. Control of AFSA is thus under three bosses (the three services represented in AFSAC), whose principal energies and loyalties are elsewhere, and to make matters worse, three bosses who must act by unanimous agreement."

The committee recommended that AFSAC be disbanded and replaced with a special committee under the National Security Council and a revitalized United States Communications Intelligence Board, which had been nearly emasculated by the creation of AFSAC.

Under this complex reorganization, the Secretary of Defense, as executive agent for COMINT, would report directly to a Special Committee of the National Security Council for COMINT, consisting of himself and the Secretary of State — and the President, as circumstances might require. A new NSCID No. 9 was to be drafted, abolish-

ing AFSAC and reorganizing the USCIB under the chairmanship of the director of Central Intelligence. The new board would be composed of representatives of the Secretary of Defense and Secretary of State, the director of AFSA, the chairman of the Joint Intelligence Committee of the JCS, and a representative of the director of the FBI.

The director of AFSA would be required to bring to the attention of the board any new major policies or programs before they were adopted, as well as any reports the board might ask to see.

The board, in turn, would be responsible for advising and making recommendations regarding COMINT and AFSA to the Secretary of Defense. On a vote of not fewer than four members, each member having one vote, decisions of the board would be binding on the Secretary. Any dissenting member of the board, however, would have seven days to file an appeal to the Special Committee, whose determination would be final.

It was a complicated formula but one designed to accomplish the major goals of the committee. By placing far greater authority in the hands of the director of AFSA, it would be creating a stronger, more efficient organization. The scuttling of AFSAC and the resurrection of the USCIB would break the military's iron grip on COMINT and give the various civilian consumers a say in its collection. And the appeal process to the Special Committee would eliminate the USCIB's cumbersome requirement for unanimity in voting.

On October 24, 1952, four months after the committee had submitted its final report, President Harry S Truman attached his signature to the bottom of a top secret—code word, seven-page presidential memorandum addressed to Secretary of Defense Lovett and Secretary of State Acheson.\* Contained in those seven pages was an almost verbatum iteration of the Brownell Committee's recommendations translated into a presidential order and mandated to take effect secretly on November 4.† But there was one added surprise for the supersecret organization. It had a new name to reflect its new role—the National Security Agency.

<sup>\*</sup> The memorandum was most likely given to Secretary of Defense Lovett, Undersecretary of State David K. E. Bruce, and Everett Gleason of the National Security Council, during a 3:30 P.M. meeting in the Oval Office. (President Truman's schedule for October 24, 1952, Papers of Harry S Truman, Files of Mathew J. Connelly, Harry S Truman Presidential Library, Independence, Missouri.)

<sup>†</sup> On December 29, 1952, in one of his last acts as President, Truman quietly stamped his approval on a newly revised NSCID No. 9 incorporating the recommendations of the Brownell Committee Report. If the Truman memorandum was NSA's birth certificate, the new NSCID was its baptism.

In the fifty years since Friedman hired his first three assistants for the fledgling Signal Intelligence Service, America's cryptologic empire had grown from back room to boom town. By 1980 the Puzzle Palace had become the largest single espionage factory the free world had ever known or could ever imagine. It had become a bizarre Klondike on the Severn, where thousands of modern-day prospectors sift through endless streams of intercepts with computerized tin pans searching for that elusive nugget — the word, the pattern, the anomaly — that will lead to a golden vein of exposed secrets.

Once small enough for a single office in the old Munitions Building, the lineal descendant of the SIS today requires a virtual city just to process the mountains of intercepts constantly flooding in from its worldwide electronic dredging operation.

SIGINT City, as one might without exaggeration name the NSA's sprawling complex, lies halfway between Washington and Baltimore on a thousand acres of Fort George G. Meade. With a resident population of about thirty-five hundred, SIGINT City would in fact be larger than more than 130 other cities and towns in the State of Maryland. As in most major cities, however, that figure is increased fifteenfold by the early morning clog of nine-to-five commuters pouring off the Baltimore-Washington Parkway toward the nearly twenty buildings of downtown SIGINT City.

In many respects, the town is much like any other — you can get a haircut, do your banking, visit a travel agency, take books out of a library, buy cosmetics, or see a doctor about hemorrhoids. It has its own bus service, its own police force (with salmon-colored patrol cars), its own college (enrollment, eighteen thousand), its own television station, and even its own studio, which has produced such thrillers as *Stranger Unchallenged*. Its post office handles more than eighteen thousand pieces of mail per day; its telephone exchange connects

thirty thousand calls a month. Energy to power SIGINT City comes from its own power station, which supplies the community with 106,668 KVA of electricity — or enough to run a city of fifty thousand people.

There are some differences, however, between SIGINT City and Fargo. Before climbing into the barber's chair and asking for a razor cut, for instance, you first must have survived months of rigorous background checks, been strapped to a lie detector, received a top secret sensitive compartmented SIGINT security clearance, and signed numerous forms agreeing never to mention a word about the city, its occupants, or their professions. Also unlike Fargo, SIGINT City offers no Welcome Wagon, no Chamber of Commerce, and no Gray Line tours. Tourism, one can safely say, is at least an eon away.

Choice of the Maryland site for NSA's expansive city was far from accidental, and the drama that led up to the selection sparked a nearmutiny among the agency's civilian work force.

With the formation of the Armed Forces Security Agency, all of the nation's major SIGINT (signals intelligence) and COMSEC (Communications Security) activities were, to a limited extent, consolidated into a single organization for both efficiency and economy. To increase these desirable qualities, it was decided to concentrate all SIGINT operations at Arlington Hall and all COMSEC activities at the Naval Security Station on Nebraska Avenue, with research and development divided between the two.

This worked well for organizational structure and as a means of keeping the agency close to official Washington, but there was one recurring nightmare: the possibility that an enemy attack on Washington, or even sabotage, could completely and totally annihilate America's entire cryptologic reservoir — SIGINT as well as COMSEC, personnel as well as computers. Such a disaster would place the state of the art back before World War II, back more than a decade. Compounding the fear was the realization that a mere nine thousand yards separated the two facilities, hardly enough space to provide either one with adequate protection.

Nonetheless, the JCS in its joint wisdom decided that "the increase in efficiency due to concentration justified the temporary acceptance of the hazards involved as a calculated risk." But they began searching for a distant location to store duplicates of some of the more vital records and equipment.

Both before and during World War II, American SIGINT activities were so dispersed that, from a practical standpoint, there was no real risk of complete disruption. In addition, close collaboration with

the British SIGINT organization provided additional insurance against such a hazard. Yet what would have happened had such a misfortune taken place? A top secret JCS memorandum explains: "In the Pacific, loss of COMINT information for as few as ten critical days might have resulted in the occupation of Port Moresby instead of the Battle of the Coral Sea. Seven days' interruption would have denied the information on which our victory in the Battle of Midway was based." But the sentence that most burned into the minds of the Joint Chiefs was the conclusion that loss or prolonged interruption "immediately preceding or during the initial phases of war . . . might be fatal to the nation."

Therefore, on March 14, 1950, the JCS requested authority from Secretary of Defense Johnson to begin making plans to relocate AFSA outside the Washington area, beginning with the SIGINT activities at Arlington Hall, considered the most irreplaceable because of the computers. Ten days later approval was granted, and on April 21 AFSA director Stone appointed an ad hoc site board to find a suitable location, preferably on existing government-owned property in Texas, the Tennessee Valley, or the Denver area.

After seven long months and thirty-five on-site inspections, the board finally announced the decision: Fort Knox, deep in Kentucky's Bluegrass Country. Captain Thomas H. Dyer, one of the Navy's top codebreakers and chairman of the site board, and his four associates felt pleased with the choice; after all, Fort Knox certainly provided "security in depth," was well removed from other probable targets, and had adequate land for construction. There was, however, one factor that the board members, all military officers, unfortunately never took into consideration: the possible reaction of AFSA's five thousand civilian employees.

AFSA was not just an ordinary military organization, and its employees were not just the run-of-the-mill paper-pushing Washington bureaucrats. They were, for the most part, the cream of the scientific and mathematical crop, cipher brains and then some. Many had had to be wooed or even shanghaied from top jobs in industry and academe; others had spent years turning their peculiar craft into art. Even the clerks and secretaries were a special breed, all having passed the government's most rigorous security investigations. Losing even to percent would be a total disaster, and a move to the backwoods of Kentucky threatened a loss far greater than that. While the military were by nature transients, the civilians were by nature settlers, and the place they were settled was Washington.

Despite the protests and pleas for reconsideration, however, the decision stuck, and when the Secretary of Defense gave his blessing

to the move on April 10, 1951, many at Arlington Hall began scanning the help-wanted ads. The 2.05 percent attrition rate the agency had managed to maintain promised to go straight through the roof.

By now AFSA had changed hands. Admiral Stone had been replaced by Major General Ralph Canine, who recognized the seriousness of the situation almost at once. Yet he knew that the die had been cast, and he was prepared to live with the result. It was with much surprise, therefore, that he picked up the telephone on the morning of December 10 and found that Rear Admiral W. G. Lalor, the secretary to the Joint Chiefs, was calling to get Canine's personal feelings on the matter.

"As the director out here," Canine told Lalor, "I do not agree with that, if I am given a free hand; as a matter of fact, quite the contrary. I would say that from my standpoint that's a very poor decision and . . . if I am given the opportunity, I will say so . . . I don't agree [with] the decision as recommended to the Joint Chiefs of Staff. If they want me to tell them that I will be glad to."

Two days later he did just that, and Secretary of Defense Lovett on January 4, 1952, rescinded his order and directed that a new site be found within a twenty-five-mile radius of Washington. Canine became a hero.

Within less than a month, the possible locations had been narrowed down to eight, one of which was the Bureau of Public Roads Laboratory in Langley, Virginia, later to become the home of another set of spooks, the CIA. Of the choices, the hands-down favorite was Fort George G. Meade. Twenty-two miles from Washington's zero milestone, it had more than enough land, facilities for logistic support, and low vulnerability. The only disadvantage was that it would still require a large number of civilian employees to move, but only to the other side of Washington at most. The advantages clearly outweighed the disadvantages. The location, halfway between Washington and Baltimore, meant that both cities could be used as sources of personnel and utilities.

The selection of Fort Meade was a good one. Within hours of receiving the recommendation from General Canine, JCS chairman Omar Bradley sent a memorandum to Secretary Lovett granting his approval. Lovett quickly gave the green light to begin planning for the massive relocation of the top secret agency, an operation that was given the code name Project K.

In July 1954, the \$19,944,451 contract for the construction of Project K was awarded to the Charles H. Tompkins Company of Washington. It called for a three-story glass and reinforced-concrete structure in the shape of a large, boxy, squared-off A. The exterior walls were

to be fabricated of precast insulated concrete panels with a sickly green stone-chip facing. In addition to the 1.4 million-square-foot main building, which included a vast basement for the massive computers, Project K called for a 60,000-square-foot supply building, sidewalks, bituminous parking lots, access roads, guardhouses, and a power substation.

By the time the secret project was completed in the fall of 1957, the \$20 million cost had almost doubled, to \$35 million. But within less than six years the building was already bursting at its pea-green seams, and on June 24, 1963, steam shovels of the J. W. Bateson Company began scooping out the foundation for a new Headquarters Building. Located between the jutting wings of the A-shaped Operations Building and connected to it by a central corridor, the ninestory, \$12 million tower was built primarily to house the analysts and codebreakers of NSA's Production Organization. It gave to the Puzzle Palace an additional 512,000 square feet, 140,000 of them for a basement labyrinth of computers and data-processing equipment that would completely fill the area between the stretched-out arms of the original Operations Building. Three years after the first bucket of dirt was pulled from the front yard of the Operations Building, NSA director Marshall Carter opened the new addition by cutting the ceremonial ribbon.

Almost the size of the CIA building with the United States Capitol sitting on top, the NSA's joint Headquarters-Operations Building is the Taj Mahal of eavesdropping.\* Inside are 7,560,000 linear feet of telephone wire, 70,000 square feet of permanently sealed windows, 16,000 light fixtures, a cooling tower capable of handling eleven million gallons of water a day, and the nation's longest unobstructed corridor—980 feet—casting the 750-foot central corridor of the Capitol into a distant second place.

Driving north on the peacefully truckless Baltimore-Washington Parkway, past miles of rolling, tree-covered Maryland countryside, the visitor to the Puzzle Palace catches his first glimpse of the tan, nine-story monolith, with its surrounding green three-story A-shaped building, as he makes a right turn onto Savage Road. At first glance it looks as though the structure might belong to the Social Security Administration or some other elephantine bureaucracy. But the innocence of first impression gives way as one gradually gets nearer.

The entire complex is surrounded by a ten-foot Cyclone fence

<sup>\*</sup> The CIA building is 1,228,000 square feet; the Capitol is 718,740 square feet. Total: 1,946,740 square feet. The NSA is 1,912,000 square feet.

crowned with multiple rows of barbed wire. Attached to the fence every few dozen feet are warnings against taking photographs or making so much as a sketch, under the penalties of the Internal Security Act. Inside this is another fence, consisting of five thin strands of high-voltage electrified wire attached to wooden posts planted around the building in a bed of green asphalt pebbles. Finally, there is another tall Cyclone fence reinforcing the others. The area within is occasionally patrolled by armed guards with snarling attack dogs. On the roof, almost unseen, closed circuit television cameras with telephoto lenses peer downward as they slowly rotate to scan all the area surrounding the building.

Also littering the roof is a multitude of strange antennas. Resting on either end of the rectangular Headquarters Tower are two enormous radomes, one with an angular, pock-marked surface like a giant golf ball, the other smooth, like a Ping-Pong ball. Elsewhere are longwire antennas, parabolic microwave dishes, log-periodic antennas, and a large white satellite dish hidden inside a mammoth green shell.

One enters the building through a set of glass doors at the top of a dozen steps. This is Gatehouse 1, one of four such gatehouses around the complex, but the only one leading directly into the Tower. Straight ahead, two armed Federal Protective Service guards in blue uniforms make sure each entering face corresponds to the matching picture on the color-coded, computer-punched, plastic-laminated security badge dangling below each employee's neck.

Before passing the checkpoint, the visitor must turn to the right through another set of glass doors and enter a modern, brightly appointed reception room, where his or her NSA "sponsor" processes the outsider through one of two receptionists. A visitor without security clearance must be signed for by the sponsor and accompanied at all times. Once signed in, the visitor is issued a 4½-by-2½-inch red and white striped badge marked in large bold letters ONE DAY on the front and with a warning against misuse on the back. Nowhere, however, does the laminated badge make any reference to the National Security Agency.

Once properly tagged and escorted, the visitor passes the initial checkpoint and walks along a corridor into the Headquarters Building lobby. Along the way one passes a wall-sized, thirty-three-foot acrylic mural depicting actual Agency employees engaged in a variety of activities, from listening through earphones to collecting signals from a satellite. The long mural was specifically designed for "ambulatory viewing" (viewing while one walks).

Straight ahead, dominating the wall at the end of the passageway,

is a huge, shimmering mosaic of the Agency's seal. It is four feet in diameter, contains over twenty thousand hand-cut cubes of Byzantine smalt glass, and has a stern eagle standing guard in the center. Clutched tightly in its talons is a large, ancient skeleton key — a key for unlocking the secrets of others while jealously guarding its own. Around a sparkling, cobalt-blue background, blue letters on white spell out the name of the occupant the eagle seeks so fiercely to protect: NATIONAL SECURITY AGENCY.

A sharp left at the seal, and one is in the Tower lobby, decorated with oil paintings of each of the Agency's former directors. Here, past another armed guard, six automatic elevators can take you one floor below to a twenty-first-century world of superadvanced computers, or straight up to the ninth-floor executive offices, nicknamed Mahogany Row.

At the far end of Mahogany Row, behind a bright blue door set in a matching wall decorated with the Agency seal, is Room 9A197, the office of the director — DIRNSA (pronounced dern-za) to the initiated. Past the outer office of executive registry secretaries and a turn to the right, DIRNSA's office is comfortable but not exceptional. In front of his highly polished desk are two leather armchairs facing a matching leather couch. In between is a low coffee table; to the right, windows overlook the green Maryland countryside. An enormous world globe rests below the venetian-blind-covered windows, and, at least when Vice Admiral Bobby Inman was director, a model schooner sat on a ledge.

Back down in the lobby, a brief walk through the glass-enclosed hallway connecting the Headquarters Tower with the three-story Operations Building brings the visitor to the NSA equivalent of Main Street. A jaunt down C Corridor, longer than three football fields, will take you past a branch bank of the Equitable Trust, the Tower Federal Credit Union, the Globetrotter travel desk, the Drug Fair drugstore, the Commuter Transportation Center, the Blood Donor Center, a ticket service booth, a shop to repair your shoes, another to clean your clothes, and a barber shop, where Walter Aiken will trim your sideburns or give you "the works."

Nearby is the cafeteria, where 180 people sweat over fifteen ovens twenty-four hours a day, seven days a week, preparing codfish cakes and chicken pot pies. On warm sunny days, employees can eat in a sheltered outdoor courtyard near an old-fashioned gazebo.

Should the vichyssoise contain a touch of botulism, however, there would be small need for alarm. Within the complex is a full-service medical center capable of treating everything from the toenail to the

psyche and complete with emergency unit, X-ray and operating rooms, and one room containing a dusty skeleton with a VIP security badge dangling below its bony neck.

Elsewhere in the Puzzle Palace are the five-hundred-seat Friedman Auditorium, named after William F. Friedman, whose bust is encased at the entrance, and the NSA library, probably one of the most unusual in the world, where one can pick up a book on Mycenaean documents or watch a tape of a Saudi Arabian television program while following along with an accompanying transcript.

At the center of C Corridor, also guarded by pistol-packing FPS officers, escalators carry employees to the second- and third-floor operational areas. Here, along broad hallways, heavy steel doors bear color-coded round seals to indicate the level of sensitivity of the work going on behind them. Red, for example, means the project is compartmented, and thus off limits to those without a specific "need to know." Other hallways have warning signs prohibiting unauthorized entry. If someone without the proper badge should miss the sign and continue walking, warning bells will go off and red lights begin to flash. A voice from a speaker will ask the intruder to identify him or herself to an overhead camera.

The doors to some of the most sensitive offices, such as the communications center in the Operations Building, can be opened only by inserting one's hand into a cipher lock, a black box containing ten buttons, and pressing a certain number of them in the proper sequence.

Inside the offices, some people work at standard, gray, government-issue desks; others scribble on the green chalk boards that line the pastel walls in virtually every office in the Operations Building. Used by the Research and Engineering Organization, the Operations Building also contains numerous laboratories. On top of the desks are two types of telephones: "black" phones for unclassified conversations connect into the outside telephone network; "gray" secure phones are for classified conversations. In addition, there is a system of "security conveyor belts," which can move documents from one end of the complex to another in fourteen minutes without their having to pass through a central control point. For faster delivery, a German pneumatic-tube system can whisk documents from one office to another at the touch of a dial in less than ninety seconds.

During the 1966 dedication ceremony for the new Headquarters Tower, Director Marshall Carter quipped to the crowd: "You will notice in the Operations Building lobby we have the details of its construction immortalized in bronze and a portrait of General Canine.

Today, we have this [new] construction immortalized in bronze and across the lobby a portrait of [former director] General Blake." Then, with the flash of a smile, he added, "Now you see why I'm pushing for another building."

There was more prophecy than humor in General Carter's comments. Within two years he had his own name "immortalized in bronze" on an attractive \$5.7 million three-story building of steel and glass. Known as the S Building, the 261,516-square-foot, bronze-colored facility was designed as the home for the Agency's Communications Security Organization, referred to internally as the S Organization. COMSEC, which until 1968 had maintained its headquarters and offices at the Naval Security Station on Nebraska Avenue in Washington, was the last of the major divisions to make the move to Fort Meade.

Sharing the building with COMSEC is the Agency's massive printing facility, one of the largest and most diversified printing plants in the United States government, employing several hundred people. The pressroom equipment ranges from a fifty-inch two-unit Goss web press to a computer cathode-ray tube phototypesetting machine capable of putting out more than a million pages of material annually.

Building after building, the Puzzle Palace continued to expand its empire. What had started out as a Black Chamber was turning into a Black City. To house the increasing numbers of single military people assigned to the Agency, new dormitories were added and expanded. By the early 1970s there were five buildings housing about thirty-five hundred men and women. Also added were a mess hall that can seat a thousand people, an \$844,000 recreation building, and a \$2 million Troop Support Building to house the administration activities of the three service cryptologic agencies.

In 1972 the construction continued with a \$2.6 million Sensitive Materials Center to contain the millions of miles of intercept tapes produced yearly by the Agency's worldwide net of listening posts. Until then, they had been stored throughout half a dozen other buildings in the Baltimore-Washington area. Because of their delicate chemical nature and the frequent need to reuse a particular tape—it may present a particularly difficult codebreaking problem or contain information of continuing importance—the new building was needed to keep the tapes at a constant temperature and humidity. Also, since some of the tapes are simply erased and reused, the new 100,000-square-foot facility could house a centralized tape-rehabilitation center.

Another function of the Sensitive Materials Center, housed in a building known as SAB 3 (for Support Activities Building 3), is to

serve as headquarters for the Agency's mail and courier services. From SAB 3, NSA couriers head toward Washington each morning, transporting and picking up cargoes of supersensitive documents on seventeen different runs, five days a week. Constantly arriving and departing, too, are military couriers from the Armed Forces Courier Service (ARFCOS) and diplomatic couriers from the State Department.

One year later, in 1973, the Agency decided to consolidate its storage and logistic functions in still another new building, the \$3.5 million Logistics Building, known as SAB 4. Once the 125,400-square-foot building was completed, the Agency spent another \$53,000 moving in approximately seven hundred vanloads of paper and office supplies. Half a million cubic feet of the building are used to store the paper on which the intercepts eventually appear.

Storing the mountains of paper, however, is the least of NSA's problems. The major difficulty is what to do with it once it has been read, analyzed, shredded, and burn-bagged. It is almost impossible for anyone to comprehend how much secret information is actually produced each day by the NSA. According to a 1980 report by the Government Accounting Office, the NSA classifies somewhere between fifty and a hundred million documents a year. "That means," the GAO report concluded, "that its classification activity is probably greater than the combined total activity of all components and agencies of the Government." More secrets than the Army, Navy, Air Force, CIA, State Department, and all the other government agencies combined!

Translated into pounds, the Puzzle Palace's production of classified waste is almost forty tons a day, two hundred tons in an average week. Such statistics led one senator to question an NSA official, "Is the National Security Agency literally burying itself in classified material?" To which the NSA assistant director, seemingly resigned to his fate, responded, "It would seem that way."

The problem of how to get rid of its secrets has plagued the NSA for decades. At one point the Agency tried to have it all turned into pulp, but this meant that the material had to be sealed in plastic bags and trucked to the Halltown Paperboard Company (apparently the only company that would have anything to do with the scheme), several hundred miles away in Halltown, West Virginia, where the NSA would have to take over the plant for twenty-four hours. Dumped into a macerator, what were once the nation's deepest secrets would suddenly become material for someone's egg carton. But the problem with this system was that some paper was just not acceptable, and the Agency was left with twenty thousand square feet of warehouse space full of paper that had to be burned.

Finally, out of desperation, the Agency's Installations and Logistics (or L) Organization turned to the American Thermogen Corporation of Whitman, Massachusetts, for the construction of what came to be known as White Elephant No. 1.

In late 1972, members of NSA's L Organization journeyed up to the Bay State to view a pilot model of a \$1.2 million "classified waste destructor" and came away impressed. According to the company, the three-story machine was supposed to swallow the Agency's mountains of secrets at the rate of six tons an hour and cremate them with temperatures up to 3400 degrees Fahrenheit.

To transport the huge heaps of burn bags from the various buildings into the fiery monster, the Puzzle Palace turned, appropriately enough, to Florida's Disney World. Just as the trash accumulated in Fantasyland and the rest of the Magic Kingdom is transported automatically by underground conveyor belt to a central waste disposal facility, the burn bags from all the buildings of SIGINT City would be sucked into a \$2 million pneumatic-tube system in steel pipes buried ten feet underground and would be shot directly into the incinerator.

When the elaborate incinerator was finally completed, in the summer of 1973, the marvel of modern pyrotechnics had only one problem: it didn't work. Instead of the top secret trash becoming converted into gases and liquids, which could be piped off, it would occasionally congeal into a rocklike mass and accumulate in the belly of the Elephant, where jackhammers were needed to break it up. On at least one occasion, horrified security personnel had to scurry around gathering up bits and shreds of undigested intercepts, computer printouts, and magnetic tapes that had managed to escape through the stack. Twenty-ton Army trucks had to be drafted into service, along with armed guards, to cart the undigested secrets to secure storage at Army Intelligence headquarters at Fort Holabird, just outside Baltimore.

In all, the destructor managed to operate for a total of fifty-one days out of its first seventeen months. By the time the Agency canceled its contract, in December 1974, it had already paid off all but \$70,000 of the \$1.2 million construction price. Said one red-faced NSA official, "Our research will continue."

When SIGINT City could no longer absorb any more buildings, the people of the Facilities and Planning Staff had to look elsewhere to lay their bricks and mortar. The site selected was Elkridge Landing Road, a dozen miles north of Fort Meade and a stone's throw from the runway lights of Baltimore-Washington (Friendship) International Airport. Here the Agency leased two seven-story towers and two two-story buildings (one of which is now used by the National Aeronautics

and Space Administration), all securely wrapped in NSA's standard triple fence of barbs and sparks.

Officially known as FANX (for Friendship Annex) I, II, III, and IV, the facility has been given a less arcane name by spooks assigned there: Friendship Leper Colony. Explained one employee: "We are like the people of a leper colony. We do belong to NSA, but are socially second class to NSA." He added, "It really wouldn't hurt so badly if the people at NSA didn't reply like 'Oh, so you're from the Annex at Friendship,' in a more-holy-than-thou voice, when they ask where you work. That really smarts!"

Nor is that the only complaint about the way station. In explaining why the seven-story FANX III does not have piped-in Musak like its sister up the road, the same employee said, "It's probably that the government doesn't want to invest too much money in FANX III, since it's only a matter of time until it is wiped out by one of Friendship's jets on a bad-weather approach to the airport — which just happens to be one hundred yards out from my sixth-floor office, and sometimes one floor down!" Then there is the parking lot dubbed Cardiac Hill: "Water doesn't stand on Cardiac Hill — it runs. Ankle deep! And after you find that parking place, you don't worry about being dry when you get to work; you won't be and you know it."

Even with its FANX suburb, SIGINT City continues to strive to become America's fastest-growing city. Under way is another \$6.5 million project to house an additional six hundred military personnel, a \$5 million Facility Control Center, a \$2.5 million Logistics Support Center, and a \$2.5 million addition to the Troop Support Facility. Two million dollars are earmarked for road improvements, and \$3.5 million for other projects ranging from underground communications to a beefed-up security control point.

But the pièce de résistance is a mammoth \$92 million (at last estimate), one-million-square-foot addition to the Headquarters-Operations Building complex. The construction will add two nine-story towers to the existing Headquarters Tower, which is connected to the Operations Building. NSA would thus become the possessor of the largest government building in the Washington area, with the sole exception of the Pentagon. Still, this cement and glass monument to eavesdropping will likely remain off the tourist maps for many years to come.

As invisible as the Agency itself are the SIGINT czars who direct its far-flung operations.

Portly, white-haired Major General Ralph Julian Canine, the Agency's first director and considered by some the father of NSA, actually

came to the position by default. On January 19, 1951, before the changeover from AFSA to NSA, the Joint Chiefs stated the method by which the new director would be picked. An ad hoc committee of the AFSA Council, composed of two flag officers of each service, would convene on or about February 1 and select a director from among the list of candidates supplied by the Army and the Air Force (the Navy was excluded because one of its officers, Admiral Stone, had just held the position). When the committee met on January 29, however, the Army had supplied only one candidate, Canine, and the Air Force had not bothered to submit any! So Canine was a shoo-in and assumed command of AFSA in August 1951.

At fifty-five, the two-star general had spent most of his career as a ground soldier; he had commanded artillery units in France in World War I and again in World War II, at the Battle of the Bulge. In between, his assignments ranged from teaching military science at Purdue to being mess officer at Fort McDowell to serving as chief of staff of the XII Corps at Fort Jackson. In the thirty-four years since his graduation from Northwestern, however, the Indiana-born general's only experience in communications was as a part-time communications officer and acting brigade adjutant at Camp Funston, Kansas, in 1919. His experience with intelligence was more substantial, because his arrival at AFSA followed ten months as deputy assistant chief of staff for Army Intelligence at the Pentagon.

Despite his nonscientific background, however, Canine seemed to hit it off immediately with the military and the civilians, as well. "The people who make up this Agency," he said, "are its most important asset. It is by means of their hands and their brains that we will succeed. I am convinced that the way to insure that our job is done successfully is to hire the best people and to give them a work climate that favors the development of ideas." By deciding that that work climate should be Maryland instead of Kentucky, he managed to win the hearts and minds of nearly all employees.

Canine and the newborn NSA seemed a near-perfect match. He managed to maintain the respect of the civilians without alienating the brass-buttoned military. His greatest asset lay not in his technical expertise but, apparently, in his ability to unify an agency of inflated egos, hard-boiled militarists, and a myriad of special-interest groups. One of his first directives dealt not with the war then going on in Korea but with the color scheme of the furniture. Canine ordered that the furniture be rearranged so that all oak would be in one wing, all maple in another, and so on, until the previously haphazard arrangement took on a look of harmony.

"Lady, I know you've had that chair since 1942," he is supposed to have remarked on one occasion, "but it is the wrong color for this wing. Let's compromise — let the chair go to Wing 3; then you and the cushion can stay here in Wing 5." The effect of the resulting orderliness was a greatly improved efficiency. Canine later admitted, however, that he had issued the directive because he didn't know what else to do to get the people to know him.

In November 1956, after more than five years as head of AFSA-NSA, Canine retired and was succeeded by John Alexander Samford, a fifty-one-year-old Air Force lieutenant general whose weathered good looks seemed to betray his early years as an open-cockpit pilot. The West Pointer, one of the Army's early birds in aviation, was awarded his gold wings in 1929. After a number of assignments in both the United States and Panama, he took part in a history-making 1939 mercy mission to Santiago, Chile, which had suffered a devastating earthquake.

During World II, Samford spent most of his time in England, serving in a number of positions in the Eighth Air Force, including chief of staff. In 1944 "Sammy" Samford returned to Washington and received his first taste of the blacker arts as deputy assistant chief of staff for Air Force Intelligence in the Pentagon. This was followed by a thirty-month return to the academic life, first as commandant of the Air Command and Staff School and later, briefly, as commandant of the Air War College at Maxwell Field in Montgomery, Alabama.

In October 1951, during the Korean War, the veteran command pilot became director of Air Force Intelligence, a post that gave him a good background for his next assignment, NSA vice director (as the deputy director's job was designated until the fall of 1956). Appointed to that post on June 1, 1956, he spent the next six months trying to learn as much as he could about the strange world of SIGINT while interning under General Canine. Finally, on November 24, he took over the reins of the Puzzle Palace from the retiring director.

Samford continued the expansion of NSA's worldwide listening posts begun earlier by Canine. His four-year tour at the NSA ended with considerably more attention than it began. Several months before his scheduled November 1960 retirement, the Agency suffered the worst scandal in its history when two employees decided to make a permanent change of address to Moscow.

Entering in the middle of the firestorm was Vice Admiral Laurence Hugh (Jack) Frost, a 1926 Annapolis graduate with a well-rounded career in both communications and intelligence. The thin, silverhaired naval officer had spent two years studying applied communications at the Navy's graduate school in Annapolis before undertaking a series of shipboard assignments, which included service as communications officer on the flagship U.S.S. Dallas.

During World War II Frost won a Bronze and two Silver Star medals while commanding the destroyer U.S.S. Waller through the Japanese-controlled Solomon Islands. Afterward, he returned to communications and a variety of assignments in Naval Intelligence until 1953, when he picked up his two stars as a rear admiral and became chief of staff at NSA for two years. In May 1956 the fifty-three-year-old admiral was appointed director of Naval Intelligence, and four years later re-entered the Puzzle Palace.

Frost's brief twenty months as director were consumed mostly by the various inquests into the double defection. Among his reforms was the shifting of the Agency's civilian personnel from regular civil service to excepted status, a move that permitted the Agency to fire an employee in the interests of national security without the employee's having any recourse. Frost's own cryptologic career was terminated prematurely following a dispute with the Pentagon. On June 30, 1962, he left the NSA to become commandant of the Potomac River Naval Command, a sort of halfway house for admirals on the brink of retirement.

Replacing Frost was fifty-one-year-old Gordon Aylesworth Blake, an Air Force lieutenant general and avid square dancer, who, like his predecessor, had spent a considerable portion of his career in communications. During World War II he commanded the Army Airways Communications System in the Pacific, and in 1953 he was appointed director of Air Force Communications. From 1957 to 1959 the tall, balding general commanded the NSA's air arm, the U.S. Air Force Security Service. Following brief tours as Vice Commander-in-Chief and Chief of Staff, Pacific Air Forces; and Commander, Continental Air Command, Blake entered the Puzzle Palace as the Agency's fourth director. There, he concentrated on establishing closer relations between the NSA and the three service cryptologic agencies.

One of his innovations was the development of the NSA's own hush-hush version of the Oscar—the Travis Trophy. As indicated by the inscription on the silver, two-handled cup, the trophy is to be awarded annually to the U.S. CRYPTOLOGIC AGENCY WHICH HAS MADE THE MOST SIGNIFICANT CONTRIBUTION IN THE FIELDS OF OPERATIONS, MANAGEMENT, ADMINISTRATION OR SUGGESTIONS.

Established in 1945 by Sir Edward Travis, the first director of the Government Communications Headquarters (GCHQ), the British counterpart of NSA, the Travis Trophy's original purpose was to serve as a prize for competitive games, such as chess and softball,

between the Army and Navy SIGINT organizations. Blake discovered the cup, forgotten since the establishment of the Armed Forces Security Agency, collecting dust at Arlington Hall Station, and decided to revive it as a competitive award among the three service cryptologic agencies for outstanding contributions in cryptology. GCHQ director Sir Clive Loehnis, as the cup points out, fully concurred with the idea, and on September 10, 1965, the incumbent NSA director, Marshall S. Carter, awarded the shiny bowl to its first winners, the 6988th Security Squadron of the Air Force Security Service. The British were represented at the ceremony by Reginald H. Parker, the properly mustachioed representative to the NSA from GCHQ.

Blake's successor as DIRNSA was Lieutenant General Marshall Sylvester (Pat) Carter, a third-generation Army officer and one of the best qualified of all NSA directors in breadth of experience. A graduate of West Point with a master's degree in engineering from MIT, Carter had spent his early Army years in antiaircraft artillery units and, during World War II, in Army logistics. In 1946 he was named special representative in Washington for former Chief of Staff George C. Marshall while the general was on his China mission as ambassador. The following year, when Marshall became Secretary of State, he managed to get Carter promoted to brigadier general and took him along as a special assistant, thereby giving the future NSA director a firsthand look at American foreign policy. Later, when Marshall was named Secretary of Defense, he brought his protégé with him as his executive assistant. In April 1962, after a number of air defense assignments, Carter returned to Washington to become deputy director of the CIA under John A. McCone, picking up his third star along the way.

At the "pickle factory," or "McConey Island," as the irreverent general would occasionally call the agency, he wound up spending almost 25 percent of his time running the show as acting director in McCone's absence. It was Carter, for example, who first received the U-2 photos indicating the presence of Soviet offensive missiles in Cuba and it was he who first showed the "pornography" to President Kennedy.

But despite the heady challenges and responsibilities of being the nation's number two spook, he found the job to be not without its hazards. On three occasions Carter tangled with Defense Secretary Robert S. McNamara and, unfortunately for his military career, managed to win each round. Once, during a meeting at the White House with JFK, McNamara came up with what he thought was a piece of hot intelligence but which was actually eight hours old. Carter had

gotten new information from the NSA, just before he left CIA headquarters, that completely changed the picture. "I had the word of Isaiah . . ." Carter recalled, so "I had to correct McNamara right there — and he didn't like that worth a damn!"

According to Carter, "McNamara could never understand that I was working directly for the President [as deputy director of Central Intelligence] and the government by law, and was not just another lieutenant general to be overridden as a subordinate in his chain of command." When Carter entered the CIA he had replaced Charles P. Cabell, a four-star Army general, and after he had spent three years on the job, McCone decided to recommend him for his fourth star. But McNamara opposed the promotion, and, instead of gaining a star, Carter ended up losing one — and, along with it, his job.

When President Johnson replaced McCone with retired Vice Admiral William F. Raborn on April 11, 1965, Carter was left out in the proverbial cold. According to the National Security Act of 1947, which set up the CIA, the military was forbidden to occupy the top two positions at the same time. No longer in a three-star billet, Carter was demoted to major general but, in a face-saving move, was allowed to continue wearing his three silver stars. The fig leaf, however, helped little. As he confided in a letter to a friend:

When Admiral Raborn was selected to be the Director of Central Intelligence, I contracted an immediate and virulent case of instant unemployment. It is now the Army's problem — not mine — and I dare say that before I totally rot on the vine they will find a gainful task for me some place in this embittered, tired world.

Left without an assignment for about a month or more, Carter was tempted to turn in his greens. Nevertheless, he decided to hold off in the hope that a real job might turn up. At about that time, one of his former West Point classmates — NSA director Gordon Blake — decided to retire, and Cyrus Vance, McNamara's deputy, asked Carter to take over the Puzzle Palace.

The proposition was appealing to Carter, but it had the taste of a demotion. "I was in effect stepping down... because I was getting back into the Department of Defense machine."

The NSA, Carter believed, had become an overlooked stepchild, mindlessly channeling its flood of intercepts to the analysts at Langley. Director after director had come and gone, and though most were competent in terms of collection and technical knowledge, few put much emphasis on analysis of the data. Even in general policy discussions at United States Intelligence Board meetings, some di-

rectors apparently felt intimidated because they lacked the "big picture"

Admiral Frost once described the feeling as "sometimes quite awkward." While the SIGINT and COMSEC subcommittees generally presented no problem, the general meetings frequently did. "In the case of the U.S. Intelligence Board, the posture of the director of NSA is a bit different in the evaluation field than it is in the production field," Frost commented after he left his post, adding that, although this did not deny him a vote in certain areas, it "may well lead to deferring to those responsible for evaluating all sources of information."

Carter was well aware of these problems when he was approached by Vance, and had no illusions about the job. He told Vance that he would take the post only under one condition — that he be responsible solely to either Vance or McNamara. The condition was agreeable and, to Carter's relief, freed him from coming under the thumb of Dr. Eugene G. Fubini, the assistant secretary of defense in charge of intelligence. The condition was based on a personal dislike for Fubini and also, apparently, on Carter's distaste for the prospect of having to answer to a group of middle-level bureaucrats after being the number two man in the entire intelligence community for the previous three years.

Finally, on June 1, 1965, Pat Carter, fifty-three, took charge of what he would frequently call "Anagram Inn." Stocky and bald on top, Carter had a infectious sense of humor that could appear at almost any time. Once while deputy director of the CIA he sent a personal letter to a rather reluctant potential recruit with "'peculiar' types of attributes," declaring: "What I was thinking of was perhaps your availability at various times for varying periods to do special jobs, in some cases out of the country." He added, "It would not, repeat not, involve shooting spies, bugging telephones, and organizing coups or running around bare-ass naked like Mata Hari. You should know we don't do that sort of stuff!!"

Carter was also an avid outdoorsman, and weekends were frequently spent hunting quail and deer in what is without doubt America's most exclusive game preserve: Camp Peary, Virginia. Better known as "the Farm," the several thousand wooded acres outside Williamsburg are the CIA's secret training base for its recruits as well as senior spies. Both while at CIA and later at NSA, Carter enjoyed guest privileges at the Farm (code-named Isolation), where he sported around in a jeep named Baby Doll or hunted for doves while a short distance away future CIA officers learned the latest techniques in

sabotage and infiltration. So frequent were Carter's pilgrimages to Isolation that it led his assistant, Henry Knoche (himself deputy director of CIA during the late 1970s), to comment in a letter, "Should you ever opt to run for office or even COS [Chief of Station] at 'the Farm,' please know you'll have my vote."

From the start, Carter knew that the NSA had an image problem, inside as well as outside its confines. He hoped to change the external situation by a more aggressive presence on the USIB as well as the other intelligence boards. Inside, it was a different matter.

Whereas people at the CIA can at least derive some inner satisfaction from an occasional book, article, or news report about their agency, the innominate workers in the Puzzle Palace are sentenced to almost total oblivion by the Agency's enforced policy of anonymity. Because he believed that a modicum of recognition was essential for morale, Carter began inviting senior government officials out to the Agency itself for an NSA version of the pep talk.

Until Carter became director, few officials had even known where the NSA was hidden, let alone visited the location. Even Moscow appeared to know more about Carter and his Agency than most of official Washington. One Soviet magazine dubbed him "Pat—the Electronic Ear" and wrote of "Carter's 'skill' in shady, backstage machinations." The article went on: "They say that the better the secret agent, the less one hears about him. If this is so, Pat Carter should take pride of place over his colleague Helms."

By bringing senior policy-makers out to the Puzzle Palace for a tour around the building and a talk in the Friedman Auditorium, Carter hoped to boost the Agency within the intelligence community and at the same time present his workers for a pat on the back. By far his greatest coup took place on September 26, 1967, when Vice President Hubert H. Humphrey arrived at Gatehouse 1 amid ruffles and flourishes for a tour and address. One of the most senior officials ever to enter the Puzzle Palace (Vice President Bush paid a visit on February 23, 1981), Humphrey told the assembled spooks that, although "most of you labor long and productively with little expectation of public recognition . . . there are people on the highest levels of government who do know what you're doing and appreciate your efforts. I came here to tell you that and to thank you on behalf of a grateful nation."

Others invited to lead NSA in a cheer at one time or another were former CIA director Allen Dulles; James Rowley, director of the Secret Service; Bromley Smith, executive secretary of the National Security Council; James Lay, executive secretary of the USIB; and J. Patrick

Coyne, executive secretary of the President's Foreign Intelligence Advisory Board.

Noticeably excluded from Carter's invitation list was anyone in uniform. Although technically the NSA is "a separately organized agency within the Department of Defense," Carter preferred to put the emphasis on the word separately rather than Defense. There was a constant tug of war between the military, who wanted the Agency under its total domination, and Carter, who wanted to preserve and increase the Agency's national role.

"You know I was fighting, the whole four years I was there; I was fighting to keep the military from taking over NSA," Lieutenant General Carter later recalled. "I wanted to at least hold the fort on what we had." The military, more specifically, was the Joint Chiefs of Staff. What they wanted for the Agency was more brass and fewer civilians, more tactical and less strategic SIGINT, and stronger lines of control to the military establishment.

Despite an occasional defeat, Carter managed to win his share of the battles with the Pentagon in his efforts to nationalize the NSA. One of his victories was the battle of the seal. Sitting around the big, oblong conference table at the weekly United States Intelligence Board meetings, Carter would occasionally glance up at the seals of the member agencies on the wall and would invariably frown. There was the handsome CIA seal framed at the top by the words CENTRAL INTELLIGENCE AGENCY and at the bottom by UNITED STATES OF AMERICA, then the seal of the AEC, again ATOMIC ENERGY COMMISSION at the top and UNITED STATES OF AMERICA at the bottom. When he came to his own seal, his frown would deepen. It was a masterpiece of symbolism. It bore the Defense Department eagle with wings outstretched, resting on top of a shield containing a lightning bolt crossed by a skeleton key and bisected by three links of chain, together with two more bolts of lightning jutting from each side of the shield. But what bothered Carter so much was not the symbols but the words: NATIONAL SECURITY AGENCY at the top and DEPARTMENT OF DEFENSE at the bottom. It was time for a change.

Back at the Puzzle Palace, one day he called to his office Richard Nachman, NSA's artist-in-residence, and instructed him to come up with three or four different insignias. "I want United States of America, I want National Security Agency, I don't want Department of Defense," Carter told Nachman, emphasizing, "I want something unique, not a whole lot of goddamned arrows and lightning bolts and everything coming out of the eagle's rear end."

The design finally selected combined simplicity with elegance. Pic-

tured was a stern, powerful, almost three-dimensional eagle with wings drawn to its side in a proud, protective stance. Grasped tightly in its sharp talons was an ancient key. But most important, the new insignia replaced DEPARTMENT OF DEFENSE with UNITED STATES OF AMERICA, thus symbolically declaring the NSA's independence from the Pentagon.

To Carter the new artwork represented independence, but he realized that to John O'Gara, head of the Pentagon's Office of Special Intelligence, it would represent sedition. Though there was nothing on the books actually forbidding the action, Carter decided his best move would be to present O'Gara with a fait accompli. First the seal went on internal stationery; then, after three months during which there was no reaction, he ordered it on the internal newsletter. Still no reaction. "So then," Carter recalled, "I said we'll go balls out, do the whole damned smear, and we did and the first time it hit over there I got a phone call from O'Gara."

"Who approved it?" O'Gara asked.

"I did," Carter replied.

Carter heard nothing more about it until O'Gara called again a month later and said, "I think you'd better put in a request for permission to use this."

Carter answered, "It's too late, Jack; we've already been using it for six months... We've used up all the old correspondence paper, we've used up everything that has the old seal on it, and we've already printed the new seal on everything, all of our paper."

Replied O'Gara: "How much do you have into that?" To which Carter answered, "Oh, probably about a hundred and twenty-five thousand, I imagine, altogether, but . . . if you want to change back, why just send me a directive and a hundred and twenty-five thousand and I'll see that it's done." Carter finished his account with a loud chuckle. "That's the last I heard from him."

Some of Carter's problems with the Pentagon stemmed from the fear of the senior brass that NSA was headed down a one-way road toward total civilian domination—and that Carter was helping to accelerate the pace. Understandably, there were probably few tears shed in some quarters when Carter announced plans to retire, effective August 1, 1969, after more than four years as DIRNSA.

Picked to become the sixth NSA director was Vice Admiral Noel Gayler, a handsome, salt-and-pepper-haired naval aviator. Born on Christmas Day, 1914, in Birmingham, Alabama, Gayler graduated from the Naval Academy and spent the better part of his career as a fighter pilot. During World War II he became the first person in history to be awarded three Navy Cross awards. In 1957 he was se-

lected to be aide to Secretary of the Navy Thomas S. Gates, Jr., and in August 1960, after a tour as commanding officer of the aircraft carrier U.S.S. Ranger, he went to London as the naval attaché. After several other fleet and Pentagon assignments, Gayler became deputy director of the Joint Strategic Planning Staff at Offutt Air Force Base in Nebraska, where his duties included selecting the targets for the strategic strike forces. From there he went to NSA.

In many respects, Gayler's background was the exact opposite of Carter's, which may have been the reason he was chosen. Whereas Carter had been influenced by civilian attitudes during his tours at the State Department and the CIA, Gayler's background, with the exception of London, had been uncontaminated by civilian influence. Also, his lack of prior intelligence experience may have been seen as an advantage by those who felt Carter had tried to turn the Puzzle Palace into another CIA. Finally, unlike Carter, who knew he was on his final tour and therefore could not be intimidated very easily, Gayler was young enough to have at least one more assignment, which could earn him a fourth star. He could be expected, then, to toe the line when it came to military versus civilian decisions.

If those were the reasons behind Gayler's selection, it seems that, at least initially, the planners must have been disappointed. In October 1971, more than two years into Gayler's tour at the NSA, the Army Security Agency chief, Major General Charles J. Denholm, told his tale of woe at a classified briefing for the Army vice chief of staff. "At the end of World War II," Denholm told General Bruce Palmer, Jr., "NSA was about 99 percent military. Now at NSA within the top 2000 spaces, you will find that there are perhaps 5 percent military. There are many GG-17s and above. There are about 650 GG-15s and above. There are about thirteen military men among the three services out of about 275 super grades that are running the show. So the military has gradually disappeared from the higher echelons at NSA." Denholm concluded, in the not-for-NSA's-ears briefing, "I fear that in about five years there probably will be no more military at NSA. All the key NSA slots are disappearing."

At the heart of the battle between the military and civilians was control of the budget. Known as the Consolidated Cryptologic Program (CCP), it combines into a single, gargantuan budget submission America's entire SIGINT and COMSEC resources, including, to an extent, targeting. Estimated by some to be as high as \$10 billion, it includes everything from the cost of a set of headphones at a desert listening post in Morocco to NSA's CRAY-1 computer in the basement of its Headquarters Building.

By 1969 NSA's cryptologic community had grown to a whopping

ninety-five thousand people, almost five times as many as the CIA personnel. So large was the CCP that even NSA director Carter called it "monstrous." To emphasize the point, one day he called into his office one of the employees from the NSA printing division who happened to moonlight as a jockey at nearby Laurel racetrack. The man stood about four feet six. Carter had the jockey get behind an Agency pushcart, on which was piled the CCP and its supporting documentation, and called in the NSA photographer to snap the picture. The photo, according to Carter, was worth a thousand explanations, especially since "you couldn't tell whether [the jockey] was four feet six or six feet four."

Another time, Carter decided to impress Deputy Secretary of Defense Cyrus Vance with the amount of work that went into the CCP by delivering it to him personally. To make the point, Carter plopped the entire program in the middle of a big, green G.I. blanket, tied the four ends together, and had his two biggest security men put it in a car and accompany him to the Pentagon.

"I just took it into Vance's office, these two big guys carrying it," Carter recalled with a laugh. "Vance said, 'What the hell is that?' and I said, 'I wanted you to see the total effort of the National Security Agency and its operations control services — what they had to do to meet the requirements of your staff as to what we in the cryptologic community are doing.' And I had the guys untie this and here's this massive bundle of paperwork. I just thought he was going to fall out of his chair." The former DIRNSA added, "The damned thing just kept building, building, building!"

By the early 1970s, with the winding-down of the war in Vietnam and the corresponding reduction in defense and intelligence spending, the Puzzle Palace began to feel the pinch. As a result, control of the CCP within NSA became of the utmost importance, since it determined just where and how the dollars would be cut. Although both sides contributed to the final version of the CCP, at some point in the review process it had to come down to one person speaking for both groups.

In what one former NSA official termed a "declaration of war," a strategy paper was submitted to Director Gayler, arguing that that one person should be a civilian. Written by Milton S. Zaslow, then the assistant deputy director for Operations and the second most powerful civilian in the Agency, and Robert J. Hermann, chief of W Group, the intercept unit in the Operations Organization, the paper argued that because it is the civilian leadership at NSA that represents the continuity, it is in a better position to determine the needs of

the SIGINT community. Said the former NSA official: "The strategy paper was written saying 'We're the ones who know all about this stuff, we'll control it and we'll tell you what you can have, and we'll see that you get the support you need when you need it."

But the military argued that since they were the ones operating the listening posts, the aircraft, and the submarines, they should have final authority over the CCP.

Eventually Gayler had to make the choice — and the decision went to the military. In the view of one of the civilians: "He wasn't a ball player until the end. From what I saw, he [Gayler] was really good for NSA, up until the end, and then I think he sold out; he went along with the military."

On August 24, 1972, after three years as America's chief electronic spy master, Gayler was promoted to full admiral and awarded one of the choicest assignments in the military: Commander-in-Chief, Pacific (CINCPAC), based in Hawaii. Gayler's ascent to four-star rank and promotion to bigger and better things marked a turning point in the history of the NSA that has, thus far, not been reversed. Before Gayler, DIRNSA was generally acknowledged to be a final resting place, a dead-end job from which there was no return. Beginning with Gayler, however, NSA has been a springboard to four-star rank and major military assignments.

Gayler's successor was Lieutenant General Samuel C. Phillips, an officer who had spent the past twelve years in the Air Force space and missile program and, probably, the National Reconnaissance Office, which operates America's fleet of spy satellites. He stayed barely a year. The man chosen to finish out his assignment was his former deputy in Los Angeles, Lieutenant General Lew Allen, Jr.

Allen, tall and professorial-looking, with rimless glasses and a few wisps of fine dark hair across his crown, arrived at the Puzzle Palace on August 15, 1973, following an assignment of only five and a half months with the CIA. Born on September 30, 1925, in Miami, Florida, Allen graduated from West Point and later earned his master's and doctorate in physics from the University of Illinois. His early career was spent mostly in the nuclear weapons field, where he specialized in the military effects of high-altitude nuclear explosions. In December 1961 he was assigned to the Space Technology Office of the Director of Defense Research and Engineering, both within the Office of the Secretary of Defense. From that point, his career was centered in the supersecret National Reconnaissance Office. After serving as assistant to the director of Special Projects, he was named director of Special Projects within the Office of the Secretary of the Air Force

as well as deputy commander for Satellite Programs, Space, and Missile Systems Organization. These two positions, in combination, presumably formed a third: operational head of the NRO.

The assignment of the space-age spy, used to keeping as far from the limelight as possible, to the Puzzle Palace seemed to be a matter of the wrong person in the wrong place at the wrong time. Among the hot potatoes Allen found dumped in his lap on taking over the Agency was a legal case being prosecuted by the Justice Department that threatened to expose one of the NSA's most secret operations. On top of that, the greatest part of General Allen's four years as director was spent defending his palace against the onslaught of Executive Branch, Senate, and House intelligence investigations. In the process, he became the first director ever to testify publicly before a congressional hearing.

As bloody as the battles were, however, they were no doubt worth the reward: promotion to four-star general and, after a brief assignment as head of the Air Force Systems Command, control of the entire Air Force as chief of staff.

Succeeding Allen as the occupant of Room 9A197 was Vice Admiral Bobby Ray Inman, who, at forty-six, was the youngest DIRNSA in the Agency's history. Inman is thin, with a boyish face and a gap between his two front teeth. He was born in the dusty Texas town of Rhonesboro and graduated from the University of Texas at the young age of nineteen. After dropping out of law school, he taught in public schools for a year and then, with the draft board hot on his tail, joined the Naval Reserve. Assigned at first to an aircraft carrier for about two years, he planned to do three years in the Navy and then get out, but he happened to be transferred to Paris and then stayed in for an assignment to London as an aide.

Having decided to make the Navy his career, in 1957 Inman applied for naval postgraduate training and received it in the field that was his third choice, Naval Intelligence. "They were obviously desperate," Inman later joked. Course completed, he was assigned as a watch officer for the chief of Naval Operations. "I stood my first watch one early July evening in 1958," he recalled. "A few hours later the coup in Iraq came. Nuri Said and Faisal were overthrown, killed, and dragged through the streets. A few hours later the decision was made to accept a request that we land Marines in Lebanon." It was a dramatic start to what was to become a remarkable career.

In 1961 Inman became an operations intelligence analyst at the Navy Field Operational Intelligence Office at NSA. "I was an analyst for thirty-three months looking at the Soviet Navy as my prime occupation in a complete all-source environment," Inman said of the NSA

assignment. "That means no categories of intelligence were restricted in their flow for my consideration, so long as they dealt with the general topic of the Soviet Navy. I was watching them at a time when they rarely sent any ships two hundred miles beyond their waters, and when they did the units frequently broke down and had to be towed back. By the time I left three years later I had seen them develop a permanent presence in the Mediterranean and off West Africa, and they were building a framework for their presence in the Indian Ocean."

Following a tour as an assistant naval attaché in Stockholm, Inman became the chief of the Current Intelligence Branch at Pacific Fleet Headquarters in Hawaii. From here he had a close-up view of such intelligence disasters as the capture of the U.S.S. *Pueblo* and the loss of the EC-121 off Korea. In September 1974 Inman was appointed director of Naval Intelligence and two years later became vice director for Plans, Operations, and Support at the Defense Intelligence Agency.

Inman was the first NSA director after the spate of intelligence investigations, and his approach, therefore, can be described as modified enlightened. Unlike many of his predecessors, Inman was a skilled diplomat when it came to dealing with Congress; he had acquired the talent while suffering through the various congressional investigations as director of Naval Intelligence. His tenure seems to have been divided between trying to ensure an NSA monopoly in the field of cryptography and working out protective legislation for NSA's SIGINT operations with the Senate and House Intelligence Committees.

In his efforts to eliminate outside competition in the cryptographic field, Inman took the unprecedented step of going public in a number of lectures and interviews. Most of these, however, were low-key affairs, intended to attract little attention and to produce even less substance. "I try to do it out of any glare of publicity, because of my conviction that the heads of the intelligence agencies should not be public figures," he told one group. "If they are, if the work force sees their profiles day after day on the front page of the paper, on television, on the weekly magazine cover, and sees them getting all the credit for what they're doing, it's a little hard for them to enforce the discipline of protecting secrecy."

One of the more enlightened reforms during Inman's stay at NSA dealt with a phobia that had plagued the Agency for twenty years: the fear of homosexuality within its ranks.

The worst scandal ever to hit the Agency took place in 1960, when the two analysts, who many believed were homosexuals, defected to Moscow. In the McCarthy-type purge that followed, dozens of NSA employees suspected of homosexuality were forced to resign or were fired. Since then, any hint of homosexual behavior has resulted in either the person's not being hired or, if the fact is revealed later, being forced to resign.

Then, when it was discovered in early July 1980 that a GG-11 linguist, on temporary assignment for some special schooling in Rosslyn, Virginia, was probably a homosexual, the first reaction by the Agency was to lift his clearance and begin an investigation. During questioning, the six-year employee of the Agency candidly admitted that he was, in fact, gay. Several days later a supervisor called him into his office, told him that he would certainly be fired, and strongly urged him to resign.

Instead, the employee contacted Franklin E. Kameny, a gay rights crusader in the Washington, D.C., area. Kameny in turn called the NSA supervisor and advised him that there would be no resignation under any circumstances, that the case would be fought both administratively as well as judicially, and demanded the immediate restoration of the employee's security clearance and his job. In addition, Kameny, a skilled bureaucratic street fighter who spits out his words, told the supervisor that "if the case had to be fought, it would be fought to the accompaniment of a torrent of publicity of our making . . . which would not be of the Agency's liking."

The words struck the right nerve in the reclusive, publicity-shy Agency, and on September 15, NSA general counsel Daniel C. Schwartz telephoned Kameny and asked him to "lower the heat." Schwartz, a former Federal Trade Commission lawyer, said that the case had sparked a high-level reconsideration of Agency policies regarding homosexuality and that it appeared as though the final decision would be favorable.

There the matter rested until the middle of October when Schwartz contacted Kameny, who was acting as counsel for the employee, and asked him to come with his client to the Agency on Wednesday, October 29, to discuss a settlement. Greeted and given badges at Gatehouse 1, the two were escorted by Schwartz up to his ninth-floor office, where they were joined by Assistant General Counsel William Hamel and Deputy Director of Administration Louis J. Bonanni. Schwartz opened the conversation by saying that the Agency had decided to reinstate the employee and restore his clearance. The incredible catch, however, was that the employee would be required to sign a prepared agreement in which he promised that he would tell his family (mother, two sisters, and five brothers) of his homosexuality and that he would not succumb to blackmail.

## CONDITIONS FOR RETENTION OF EMPLOYMENT IN A CRITICAL SENSITIVE POSITION AND FOR RETENTION OF ACCESS TO SENSITIVE CRYPTOLOGIC INFORMATION

## MEMORANDUM OF AGREEMENT

- I, , in recognition of the critical importance of the sensitive cryptologic mission and activities of the National Security Agency to the defense and national security of the United States, understand and accept the need for extraordinary security measures and high standards of personnel security in the Agency. I acknowledge my obligation to comply with the Agency standards of conduct and the Agency policy relating to safeguarding of information regarding Agency organization, activities and functions deemed by the Agency to require protection in the national interest. As conditions of retention in employment in a critical sensitive position in the National Security Agency and to having access to classified information, including Sensitive Cryptologic Information, I agree:
- 1. I will report to the Director of Security or his representative and not succumb to any attempt to blackmail me or subject myself to coercion or duress because of my sexual preference or behavior related to that preference. I will take steps, within the next 60 days, to reduce my vulnerability to blackmail or extortion by informing the members of my family of my sexual preference. When this has been done, I will inform the Director of Security or his representative.
- 2. I will not violate the laws of any jurisdiction in which I find myself as they relate to conduct in public.
- 3. I will not condone, support or participate in any activity not consistent with the Agency's policy on anonymity or which may bring disrepute or notoriety to the Agency.
- 4. I will agree to cooperate with such investigation as may be required from time to time to update my background investigation or to confirm my compliance with these conditions.

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Both the employee and Kameny agreed to the conditions, but they had one of their own. Because both felt the decision was an important one, they wanted to publicize the case, at least within the gay press. The NSA officials at first objected but later relented, on the condition that the employee's name not be mentioned, an acceptable condition. The agreement signed, the employee was scheduled to return to his job the following Monday.

Once Kameny and the employee left, however, Schwartz, and, presumably, Inman, began having second thoughts about the idea of publicity. About ten o'clock that night, Kameny received a call at his Washington town house from Schwartz, asking him to hold off on the publicity for between thirty and sixty days; he wanted to "mend fences" with others in the government, and he felt it would be better if they learned of it from him rather than from a newspaper story. Specifically, he wanted to consult with the Senate and House Intelligence Committees, some sections of the Defense Department, and the CIA. By then Kameny had already reserved space in *The Blade*, the local gay newspaper, but he nevertheless agreed.

Six weeks later, about the middle of December, Schwartz called Kameny and requested that no publicity at all be released regarding the agreement. In the intervening month and a half, Ronald Wilson Reagan had been elected President, and the political winds had suddenly shifted sharply to the right. "They had read the election returns and they felt that there would be a lot of people who would not be very happy about this," Kameny said of Schwartz's comments. "They were concerned about a backlash from the Moral Majority, and he specifically used the phrase 'Moral Majority,' and asked that we not publicize at all. I said that's a much graver decision to make."

Adding to the drama was the fact that Inman was seriously being considered for the number two job at CIA. Until William J. Casey was named the new CIA boss, Inman had also been in the running for that position. Although Kameny wanted very much to run the gay story, he believed that having Inman at the CIA would further ensure fair treatment for gays throughout the intelligence community, and he did not want to do anything that might hurt the NSA director's chances.

On the other side of the coin, however, according to one NSA official, "there remain people throughout the intelligence community who really do feel deep in their guts that homosexuals are not appropriate people to be given security clearances. There are a lot of that ilk who are upset by the decision." Apparently as a result of these feelings, and perhaps in an attempt to embarrass Inman, anonymous

callers began leaking the story to the Washington Post shortly after Christmas. Ironically, the first story broke on December 30, the day after the gay NSA employee reported to Security that the terms of the agreement had been complied with and his family had been notified. Security said it would verify the information, but told him that, as far as it was concerned, his job was absolutely safe. Within about two weeks he was promoted to GG-12.

Undoubtedly to the disappointment of the leakers, Inman came through the whole affair like a breath of fresh air. After a month or so of playing hard to get, saying he was going to retire from the Navy to make money in the corporate world, he accepted Casey's offer to become deputy director of the CIA and, along with it, a promotion to full admiral—a rarity for someone who was not an Annapolis graduate. His confirmation hearing was the congressional equivalent of a love-in, with both liberal and conservative senators tripping over each other to heap compliments on him. "If ever there was unanimous consent and enthusiasm, this is it," said Senator Richard Lugar of the Senate Intelligence Committee.

Named on March 10, 1981, to fill Inman's chair in the Puzzle Palace was his old friend Lincoln D. Faurer, a fifty-three-year-old Air Force lieutenant general. A native of Medford, Massachusetts, Faurer graduated from West Point and picked up a master's degree in engineering management from Rensselaer Polytechnic Institute, as well as a second master's, this one in international affairs, from George Washington University. He spent most of his career carrying out intelligence and strategic reconnaissance assignments, commanding RB-47s in the 1950s, and taking over a surveillance squadron on the frigid Aleutian island of Shemya during the late 1960s.

In July 1964 Faurer was assigned to the Defense Intelligence Agency in the Directorate of Scientific and Technical Intelligence, eventually becoming chief of the Space Systems Division in the Missiles and Space Office, until his departure in 1967. Seven years later he returned to the DIA as deputy director for Intelligence and in July 1976 he took over one of the two vice director posts as vice director for Production. That same year, Inman came to DIA and moved into the other office as vice director for Plans, Operations, and Support. Under this arrangement, Faurer was responsible for current intelligence, estimates, scientific and technical intelligence, and research. Inman, on the other hand, ran the Defense Intelligence School, the collection operations, the Defense Attaché System, and counterintelligence and security.

In the summer of 1977, when Inman was transferred to the Puzzle

Palace, Faurer was sent to Germany as chief of intelligence for the U.S. European Command, and two years later, on receiving his third star, became deputy chairman of NATO's Military Committee in Brussels.

Unlike Inman, Faurer has determined to keep out of the spotlight and apparently has begun rebuilding the Agency's wall of anonymity.

Speaking of his role as director of NSA, General Marshall Carter once said, "I sure as hell was no codebreaker." The comment was not intended as a put-down but simply a statement of fact. DIRNSAs, as can be readily seen by their backgrounds, are not selected to be codebreakers or codemakers but senior bureaucratic managers who are supposed to balance budgets, settle squabbles, crack whips, pat backs, extinguish fires, and coordinate the Agency's relations with the Executive Branch, Congress, and numerous policy boards. The day-to-day running of the Puzzle Palace is left to the deputy director, who is traditionally the senior cryptologist in the United States government.

The first vice director was Rear Admiral Joseph Numa Wenger, who was named deputy director of the Armed Forces Security Agency in 1948. He stayed on after the agency became the NSA. In the fall of 1953, he was followed by Brigadier General John B. Ackerman, who came from the Air Force Directorate of Intelligence. His successor was General John Samford, who served only six months in 1956 before becoming DIRNSA. Samford was the last man to hold the vice director title and the last of the number two men to come from the military.

The first to hold the title deputy director, or D/DIRNSA, was Joseph H. Ream, a Yale man and a Wall Street lawyer who became an executive vice president of CBS. When Ream left the NSA to return to CBS, after less than a year, he kept silent about his association.

Ream was the last of the outsiders to fill the job. His successor was an old SIGINT hand, Dr. Howard Theodore Engstrom, who had established himself in NSA Research and Development as a deputy director in charge of that branch. Engstrom, who was fifty-five at the time, had rather more professional background than most of his predecessors. During World War II he had been a captain in the Navy SIGINT organization, and after his discharge he had helped found Engineering Research Associates. That company specialized in the development of advanced cryptologic equipment, including Atlas, the SIGINT community's first computer. When E.R.A. was bought out by Remington Rand in 1952, Engstrom became a Reming-

ton Rand vice president. It was another short tenure. After ten months in the deputy director job, Engstrom returned to Remington Rand.

His exit, however, was the last of the fast turnovers, and it opened the way for what can only be described as the reign of Dr. Louis Tordella, who ran the Puzzle Palace for the next sixteen years as seven DIRNSA appointees came and went. Never before or since has any one person held so much power for so long a time within the American intelligence community. Yet even within that community, he managed to remain a man hidden in shadows.

Louis William Tordella was born on May Day, 1911, in the small Indiana town of Garrett. His university was Loyola in Chicago, where he excelled in math and chemistry, took a master's degree, and became a member of the faculty after getting his doctorate at the University of Illinois. When he joined the Navy in 1942, just after Pearl Harbor, he was assigned to cryptologic duties, and he ended the war as Lieutenant Commander Tordella, commanding officer of the Navy Security Group listening post on Skaggs Island, California. It was a short step to a Navy Department job in Washington, where Tordella helped develop operational policy for the Armed Forces Security Agency and, later, blueprints for the future NSA.

From the very beginning, Tordella was the golden boy of the Puzzle Palace. He was the first employee selected to attend the National War College in 1953–1954. The next year, he represented NSA as senior liaison officer with the Office of the Secretary of Defense. In August 1958, Tordella was appointed to succeed Engstrom in the highest civilian job in NSA. That year he was forty-seven, and he was the youngest NSA deputy director to date.

Undoubtedly one of Tordella's greatest contributions to the Agency was a massive research and development program to advance the computer capabilities of both SIGINT and COMSEC. When Tordella cut the ceremonial ribbon on Harvest in 1962, he had brought to NSA what was then "the world's largest computing system."

Another major contribution was simply continuity. As a parade of directors came and went, serving an NSA tour en route to retirement or another assignment, Tordella stayed on, a familiar presence, reassuring the British, Canadians, and other cooperating governments that the fragile, supersensitive relations between NSA and its foreign counterparts would not be disrupted. General Carter later remarked about his D/DIRNSA that "to [Tordella], the director was a transient," and Tordella's main worry was "Let's don't let him screw up the operation." (Despite the irony, Carter's respect was deep and real; before he retired as director, he secretly nominated Tordella to succeed him.)

When Tordella retired in 1974, he was laden with honors. CIA director William Colby presented him with the CIA's Distinguished Intelligence Medal, and Secretary of Defense James Schlesinger awarded him the highest intelligence decoration of all, the National Security Medal. After his retirement, he stayed on as a sort of cryptologist emeritus and consultant.

Following Tordella as D/DIRNSA was Benson K. Buffham, a man who has spent most of his professional life as a communications intelligence specialist. Buffham lasted four years in the job, and his successor, Robert E. Drake — another professional who had worked his way up through the ranks — served for two.

By this time, the appointment of able and seasoned professionals from within the Agency had become the established tradition, and the next appointee altered the tradition in one way only. She is Ann Z. Caracristi, who, at fifty-nine, had spent most of her adult years as a top SIGINT analyst and manager. She got a job with the Army Security Agency in 1942, almost immediately after graduating from Russell Sage College. She spent the war attacking Japanese cryptographic systems, and, after a brief postwar detour in journalism, she returned to cryptography in ASA. She moved steadily up the ladder in ASA and later NSA. In 1959, she was named chief of the Office of SIGINT Research, and from 1972 to 1975 served as deputy chief of A Group, the major SIGINT analysis group. She was its chief until 1980, when she was appointed D/DIRNSA by Director Inman.

Like many of the other successful managers in NSA, Caracristi is thoroughly dedicated to her profession. She is single and lives alone in a bright red house in the heart of Washington's elegant Georgetown section. In her turquoise Dodge Omni, she commutes the twenty miles north to Fort Meade each morning. Caracristi is one of the very few women to attain high rank in the defense establishment—as witnessed by the fact that, in 1975, she was the first woman in the history of NSA to win promotion to the top rank of GG-18 (the NSA equivalent of the civil service grade of GS-18), and only the second in the entire Defense Department to reach the top of the ladder.

Below the level of deputy director, NSA's organizational structure has always been one of the Agency's closest-guarded secrets. Unlike the CIA, which has never hidden most of its upper framework, the NSA quietly arranged to have Congress pass, in 1959, a statute forever sealing this information under a blanket of secrecy. Section 6 of Public Law 86-36 provides: "Nothing in this Act or any other law . . . shall be construed to require the disclosure of the organization or any function of the National Security Agency, of any information with

respect to the activities thereof, or of the names, titles, salaries, or number of the persons employed by such Agency." Thus, under the little-known law, NSA has the unusual authority virtually to deny its own existence.

Basically, the NSA is made up of ten "key components": four primarily operational "organizations," five staff and support activities, and one training unit.

Office of Signals Intelligence Operations (DDO): In the NSA's pecking order, this office, under the deputy director for Operations, has always been looked on as first among equals. Formerly known as the Office of Production, or simply PROD, it has a legion of eavesdroppers, codebreakers, linguists, traffic and signals analysts who constitute the largest single organization within the Puzzle Palace. At the helm of PROD from 1963 to 1968, first as deputy assistant director and later as assistant director, was Oliver R. Kirby, a chunky, crew-cut, NSA veteran who was given the Pentagon's highest civilian award in 1963, the Distinguished Civilian Service Award. In the spring of 1968, Kirby succumbed to the temptations of private industry and went to work for LTV Electrosystems, Incorporated, in Greenville, Texas, as vice president of advanced planning, a position he holds today with the successor company, E Systems, apparently one of the NSA's major suppliers of SIGINT hardware. It is E Systems, for example, along with IBM, that reportedly built the computers for NSA's massive listening post at Pine Gap, Australia, in the late 1960s.

Taking Kirby's place was Air Force Major General John E. Morrison, Jr., one of the Agency's most vivacious public speakers. Carter had picked the general for the post primarily to lessen the pressure from the Joint Chiefs and the military, who wanted to fill some of the top slots with a few of their own people. Morrison headed PROD until March of 1973, when he retired from the Air Force after thirty-two years of service.

Retired along with Morrison was the title of assistant director for Production. The successor, Army Major General Herbert E. Wolff, became the first deputy director for Operations (DDO). Known as a "wheels-up, ballsy character, a tough-ass," who "made no bones about it to anyone," Wolff decorated his office wall with a chrome-plated machine gun and, according to one former official, "ate civilians alive." His assignment seems to have been the result of a military victory in a top-level power struggle with the civilians. When Wolff arrived, he reportedly locked the door that connected his office and that of his civilian assistant DDO, Milton Zaslow.

In July 1975, to the dismay of the generals, DDO reverted back

to civilian control, when Director Lew Allen, Jr., appointed Robert Drake to the post. Three years later, on Drake's elevation to deputy director of the entire agency, DDO was again handed back to the military when Army Major General George L. McFadden, Jr., took over the post. McFadden had served as deputy director for Field Management and Evaluation (DDF) for the previous three years. As head of this office, which oversaw the operations of the worldwide listening posts, McFadden was the nominal deputy chief of the mostly paper Central Security Service, NSA's military alter ego. (The DDF position was eliminated in 1980, and some of its functions were assigned to DDO and several other organizations.)

Replacing McFadden in August 1979 was Rear Admiral Henry J. Davis, Jr., USN, the first naval officer to head the office since the early 1960s, when Rear Admiral Jefferson R. Dennis, after whom one of the streets of SIGINT City is named, was chief of PROD. As is required, his deputy is a civilian, Robert E. Rich, an old hand at the Agency who started out with the AFSA in 1950. Rich had previously served in Room 2A256 of the Pentagon as NSA's representative to the Department of Defense.

DDO encompasses the entire spectrum of signals intelligence, from intercept to cryptanalysis, traffic analysis to analysis of cleartext, highlevel diplomatic systems to low-level radiotelephone. Its brief covers the analysis of systems belonging to friend as well as foe, democracies as well as dictatorships, microcountries as well as superpowers. It is the Black Chamber's Black Chamber.

Soon after he became director, General Canine split PROD into four operational divisions and three support divisions. ADVA (advanced Soviet) concentrated on high-level Soviet cipher problems and specialized mostly in developing new methods of attack. GENS (general Soviet), on the other hand, was primarily responsible for the lower- and medium-level systems and concentrated on exploitation. The third operational division was ACOM (Asian Communist), which studied the systems of Korea, China, and the rest of Communist Asia. Finally, there was ALLO (all others), which analyzed the systems of all other areas of the world, including those of America's allies and neutral nations. ALLO-34, for example, was responsible for Middle East traffic analysis.

Computer support for the four codebreaking sections was provided by the programmers and computer experts of MPRO (machine processing), and TCOM (telecommunications) relayed the worldwide traffic. The final division, Collection, was responsible for managing the far-flung intercept network.

After the two analysts defected to Moscow in 1960, PROD was reorganized into three large SIGINT analytical groups and two support groups. As before, the three codebreaking groups were set up along geographical lines, and each handled all the analysis of its particular target. The groups were themselves divided, in descending order, into offices, divisions, and branches.

With the shake-up, ADVA and GENS were combined into A Group, largest of the three, which was now responsible for all analysis of the Soviet Union and its satellite countries. Named chief of A Group was Arthur J. Levenson, the former chief of ADVA, who would later leave the Puzzle Palace, apparently, for IBM. From 1975 to 1980, when she became the Agency's deputy director, Ann Caracristi was the top Russian codebreaker.

B Group took over from ACOM responsibility for China, Korea, Vietnam, and the rest of Communist Asia. Named chief was Milton Zaslow, a long-time Agency veteran and a specialist in Chinese.

Francis A. (Frank) Raven, the former chief of GENS, headed the final operational group, G Group, made up of the former ALLO. Responsible for attacking the traffic of much of the Third World, G Group during the 1960s and 1970s also began analyzing international telecommunications to and from the United States. By 1972 G Group had grown to 1244 civilian employees (608 female and 636 male) and about 600 military, scattered among five offices, four divisions, and fourteen branches.

In terms of support, MPRO became C Group, and the Collection Division became W Group, responsible for coordination and management of all intercept operations.\* TCOM remained the same until about 1976, when it was merged with C Group to become the Office of Telecommunications and Computer Services.

In addition to the groups, DDO also has a number of staff components, among the most important of which is PO5, the Agency's consumer staff liaison, which is NSA's point of contact for all other federal intelligence agencies. Until she retired in February 1976, after thirty-three years in the business, the position was held by Juanita M. Moody. Through her office passed the watch lists and other SIGINT requests from the CIA, the DIA (Defense Intelligence Agency), the FBI, and the other intelligence community members. And it is through this office that the collected intercepts are transmitted to the community.

<sup>\*</sup> At one time all electronics intelligence was concentrated in a separate organization, K Group. Later, K Group was merged with W Group. (Interview with Raymond T. Tate, former deputy director for COMSEC.)

PO<sub>4</sub> is the DDO staff component responsible for the formulation of operational policy and plans.

Swelling DDO's ranks are vast numbers of engineers, scientists, and mathematicians engaged in the esoteric craft of signals analysis, itself composed of four of the blacker arts: communications signals analysis, the study of any emission that could transmit information; electronic signals analysis, primarily ELINT (electronics intelligence) and RADINT (radar intelligence); telemetry analysis; and signals conversion, which attempts to locate signals hidden by such techniques as spectrum-spreading, where the signal virtually disappears into the noise, or frequency-hopping, where the signal jumps from frequency to frequency at rapid-fire speed.

Once the elusive signal has been netted, classified, and reconstructed, it then goes, if encrypted, to the modern Merlins of DDO's cryptanalytic division. There, where analysts once bent over stacks of quarter-inch graph paper, today they coordinate their paper and colored pencils with their desk-mounted computer terminals, using both the old and new tools of the trade to ransack the upper reaches of theoretical mathematics in search of a common link between yesterday's message and today's.

Should the cryppies run short on sorcery, the traffic analysts may still be able to salvage a sizable chunk of intelligence. Working with only the "externals" of the message — where it came from, its apparent destination, the priority, grade of cipher system used, as well as the frequency and volume of other messages — the traffic analysts can often supply the missing piece of a much larger puzzle. A sharp increase in traffic to and from Tyuratam, for example, may indicate an imminent space launch; a sudden switch into a high-grade cipher system or unusual jump in priority by units stationed along the border with Afghanistan may mean an outbreak of hostilities. But some patterns are not so easy to recognize; they require the study of tremendous amounts of communications data, as well as of related information, if any relationship between them is to be discerned.

Not all SIGINT, however, is wrapped in code or hidden in the radio spectrum. Much of the traffic flowing into the Puzzle Palace consists of unencrypted voice and text from telephone, cable, and telex. To turn about fifty foreign languages into English the NSA employs, according to Raymond Theodore Tate, former deputy director for COMSEC, "the largest single population of foreign-language experts in the United States, and one of the largest in the world outside the Soviet Union."

In addition to both standard and scientific translation of most languages and most dialects, a special breed of language expert known

as a crypto-linguist attacks secure voice systems and develops such advanced tools as computer-assisted voice translation. Because the Agency maintains that it constantly strives to stay at least five years ahead of the state of the art, there is every reason to believe that it has developed, or at least is close to perfecting, the ultimate computer, one that can listen to clear voice and automatically translate or transcribe. For years the NSA has used a form of machine translation known as "automatic look-up," which identifies words in a text, locates the meaning in the target language, and prints out the definition. The device can also be used to flag target words, including those on a watch list, or to count the frequency of particular words or characters in a text as an aid to breaking a cryptographic system.

Office of Communications Security (COMSEC): "The Soviets today have the capability to intercept and locate the sources of United States communications frequencies. They maintain the largest signal intelligence establishment in the world... operating hundreds of intercept, processing, and analysis facilities, with heavy exploitation of unsecured voice communications." So reported Assistant Secretary of Defense Gerald P. Dinneen in an eye-opening admission before the House Appropriations Committee. Hoping to limit the USSR's take, or at least render it useless, are the cryptographers of COMSEC.

The ability of foreign nations to exploit American communications through SIGINT is not limited to the sophisticated eavesdroppers of the Soviet Union, however. The Vietnam War demonstrated to NSA the ease with which even an electronically unsophisticated nation could take advantage of unprotected communications. Former COMSEC chief Tate said:

We have ample evidence that the North Vietnamese and the Vietcong effectively evaded air and artillery strikes because of advance information gained through monitoring unsecured United States and Allied communications. In addition, we have evidence that in a significant number of cases the enemy was able to exploit our communications to their advantage in carrying out operations against United States and Allied forces. From prisoners of war, defectors, and captured materials, it was obvious that the North Vietnamese and Vietcong, having made only modest investments in relatively unsophisticated monitoring equipments, achieved a valuable COMINT capability against unencrypted voice communications.

Better known within the walls of the Puzzle Palace as the S Organization, or simply COMSEC, NSA's Office of Communications Security provides the methods, principles, and equipment to protect the entire

panoply of classified U.S. communications, including command and control, voice, data, teletype, and telemetry; it also prescribes the way in which the systems are to be used. This encompasses everything from the scrambler phone in the President's limousine to the banks of chattering crypto machines in the State Department's sixth-floor code room — and a great deal in between.

National COMSEC policy is formulated by the National Security Council's highly secretive United States Communications Security Committee. Until recently, it was known as the U.S. Communications Security Board and had as its executive secretary Robert E. Sears,\* chief of NSA's Policy and Foreign Relations Staff. The purpose of the committee is to establish national COMSEC objectives, develop standards for the other departments and agencies of the federal government, and establish policies for COMSEC cooperation with foreign governments and such organizations as NATO. Policies established by the COMSEC Committee are passed on to the Secretary of Defense, who acts as the federal government's executive agent for COMSEC, and are then transmitted to NSA.

Making up the COMSEC Committee are the Secretary of Defense, the Secretary of State, all the service secretaries, and the Secretaries of Commerce, Treasury, and the Attorney General. The chairman is normally the Pentagon's deputy under secretary of defense for command, control, communications, and intelligence (C³I). In 1982 the post was held by Donald C. Latham, a former deputy chief of NSA's Office of Microwave Space and Mobile Systems. But the full committee, at least when it was the COMSEC Board, met no more than once a year, and then only to ratify the decisions of various working groups. And these working groups were dominated by the executive secretary — always from the NSA. Thus, the board was little more than an extension of the Puzzle Palace.

Should an issue fail to be resolved by the full board, it then, as with the old U.S. COMINT Board, would go up to a special committee made up of the Secretary of Defense and the Secretary of State. If they could not agree, then it would go to the President for a decision. Thus far, no decision has ever reached that level, and only two have ever gone up to the special committee. The last time was in 1975, when, strangely, the NSA took the issue directly to the special commit-

<sup>\*</sup> Sears was awarded the NSA Exceptional Civilian Service Award on July 24, 1979, for his service as chief of the NSA Policy and Foreign Relations Staff and as executive secretary of the United States Communications Security Board. He was cited for "his outstanding personal dedication, initiative, leadership and professional competence which have enabled the Department of Defense to establish and carry on Communications Security relationships throughout the world."

tee without ever notifying the board, because it felt the subject was too sensitive even for them. Hand-carried by the deputy director for COMSEC, Ray Tate, the supersensitive matter was approved by Secretary of State Henry A. Kissinger.

The process by which NSA's S Organization turns out its crypto equipment is both long and expensive. The first step is an in-depth study of the new communications system for which the crypto protection is requested. It concentrates particularly on the system's potential vulnerability to interception. Once the weaknesses have been identified, engineers go to work, either adapting an existing crypto machine or designing an entirely new device to overcome them. The speed at which a new cryptographic system is developed depends on priorities set, for the most part, by the U.S. COMSEC Committee.

Despite this drawn-out procedure, which may take years and cost tens of millions of dollars, the S Organization occasionally turns out a cryptographic lemon. One such occasion came to light when a subcommittee of the House Appropriations Committee discovered millions of dollars' worth of the NSA's most advanced crypto gear stashed away unused in Air Force bunkers, collecting dust and rust. The equipment, known as the KY-28, was rushed into production during the Vietnam War to give fighter pilots a secure means of conducting close air-support operation. To the pilots, however, the black boxes represented at the least a nuisance and at worst a hazard, because there was a required synchronization time between the time a transmission was attempted and the time it was actually received. Said one Air Force general: "A fighter pilot does not like to wait that long when he is in a very heated kind of combat situation . . . You can put anything in a fighter airplane you want, and if you cannot convince the fighter pilot that it will satisfy his needs, he is not going to use it."

So after upward of \$110 million was spent to modify twenty-two hundred fighter aircraft, the black boxes went to the bunkers, and the engineers at NSA went back to the drawing boards.

Both the codemaking COMSEC and the codebreaking DDO are supposedly involved in new code systems. All codes devised by COMSEC are submitted to DDO so that they can be tested for their resistance to cryptanalytic attack. "We operated on the alleged mystique that anything COMSEC did was ground through the operational side of the cryptologic branch to see if they could get into it," said former NSA director Carter. Whether testing was fact or fancy, however, even Carter himself was not quite sure. "That was what we were supposed to do; that was what we said we were doing," but,

he added, "I wasn't technically oriented enough to know whether in fact we did do it."

Deputy director for COMSEC from 1973 to 1978 was Ray Tate, an Alabama native who served as a combat air crewman on B-24s and B-17s during World War II. After a stint with the Electronics Division at the Air Proving Ground Command in Orlando, Florida, Tate again strapped on his crash helmet and flew with the Navy during the Korean War. In 1954 Tate joined the NSA as an electronics engineer in the S Organization and later earned his B.S. and M.S. degrees. After working in PROD on special collection, processing, and signals analysis programs, he took over the number two spot in COMSEC in September 1972. Ten months later he was promoted to GG-18 and named to the top COMSEC position. He retired from the Agency in January 1978 at the age of fifty-three.

Office of Research and Engineering: Turning the art of eavesdropping into a science is the goal of the third of NSA's original "big three" organizations. From their laboratories and blackboard-lined offices the scientists and engineers of R and E constantly push at the limits of possibility in their development of technological wonders ranging from electronic components so small that it takes a scanning electron microscope to perform diagnostic tests on them, to designing a dish-shaped antenna, large enough to hold two football fields end to end, in order better to hear the Russians. One of the innovative ways that R and E (named the Office of Research and Development in the early 1960s) proposed to intercept very directional microwave transmissions was to have silvery metallic barium salts shot into the sky by rockets. The signals would then bounce off the salt layer and return to a location where they could be intercepted.

Originally, R and E was divided into three divisions. REMP (for research, engineering, mathematics, physics) specialized in broad, across-the-board cryptanalytic problems, rather than attacking the systems of any one particular nation.

Scientists and mathematicians in REMP would concentrate on the upper reaches of theoretical statistics and mathematics for codebreaking possibilities. REMP later became the Mathematical Research Techniques Division.

RADE (for research and development), on the other hand, directed its efforts toward building increasingly sophisticated intercept and signals analysis hardware. This included new forms of magnetic tapes, each of which could hold hundreds of intercepted microwave communications channels. RADE was later renamed the Intercept Equipment

Division and was at one time headed by Arthur H. Hausman, who left the Puzzle Palace in 1960, after twelve years, to lend his knowledge of magnetic tapes to the giant Ampex Tape Company, as vice president for research. In 1971 he was named president and chief executive officer.

STED (for standard technical equipment development) was the section that would assist COMSEC in the research and development of advanced cryptographic equipment. It later became the Cryptographic Equipment Division and was headed by Howard Barlow, who later went on to head NSA's COMSEC Organization from the late 1960s until the appointment of Ray Tate in 1973.

The reorganization that resulted in the name changes also added a new section, the Computer Techniques Division, in which all the computer research was carried out.

Assistant director for Research and Development for the better part of a decade was Mitford M. Mathews, Jr., a soft-spoken man in his forties who had the ability to translate the most complex theory into its simplest form — a quality especially appreciated by General Carter. "I could talk to him and understand just what he meant," the former director recalled. "Talk to another guy and they were so far over my head and out of my competence to understand that sometimes I got the idea they were confusing me on purpose."

Ironically, though he was in charge of an army of Ph.D.s, Mathews himself had but a bachelor's degree, earned in 1943 from the University of Illinois. Added to this, however, were two decades of experience, starting with his assignment to the R and D Division of the Signal Intelligence Service in the 1940s, extending through service with the Armed Forces Security Agency and ten years with NSA. He succeeded Dr. Solomon Kullback (one of Friedman's original trio of recruits back in 1931) as head of R and D. In May of 1966, Mit Mathews was awarded the Pentagon's Distinguished Civilian Service Award and a year later won NSA's own highest honor, the Exceptional Civilian Service Award. His career ended tragically on January 18, 1971, when, at forty-eight, he died suddenly while on a business trip in Rochester, New York.

Taking over as deputy director for Research and Engineering was Howard E. Rosenblum, who in January 1978 replaced Ray Tate as head of COMSEC. Rosenblum was succeeded that month by James V. Boone.

Office of Telecommunications and Computer Services: Whereas most government offices or large corporations measure in square feet the space

taken up by their computers, NSA measures it in acres. "I had five and a half acres of computers when I was there," said General Carter. "We didn't count them by numbers; it was five and a half acres." Even though the emphasis today is on increased capacity and decreased size, one NSA employee, when recently told the statistic, commented, "It's double that today."

Resting today in the cavernous subterranean expanses below the National Security Agency's Headquarters-Operations Building is probably the greatest concentration of computers the world has ever known. It is a land where computers literally talk back and forth to each other and where, using what is known as "brute force," they are able to spit out solutions to complex statistical problems in nanoseconds rather than the decades it once might have taken.

NSA, like its predecessors, has been a silent partner in America's computer growth from the very beginning, yet because of what one NSA computer expert called its "policy of anonymity," NSA's role has been almost totally hidden. When the Association for Computing Machinery sponsored an observance in honor of the twenty-fifth anniversary of its founding, NSA simply observed in silence. Likewise, when the "pioneers" gathered at COMPCON-76, the quarter-century anniversary meeting of the Institute of Electrical and Electronic Engineers' Computer Society, NSA again exhibited an advanced case of shyness. Apparently, the fact that America uses computers in its SIGINT and COMSEC activities is still a national secret.

Despite the anonymity, NSA's role in computer development has been enormous. As far back as the mid-1930s, the Army and Navy SIGINT organizations were using complex machinery in both cryptanalysis and cryptography. The machines, using high-speed digital circuits and a punched-card format, were the forerunners of the modern computer. The major problem with them, however, was their overspecialization. A number of the expensive devices were built to attack a specific code or system, so if the system was changed or abandoned, the machine was of little value.

During World War II the Naval Security Group contracted with Eastman Kodak, National Cash Register, and several other firms to design and build these machines. The Signal Security Agency, on the other hand, worked closely with Bell Laboratories. Another major contractor during the war was IBM, which built a specialized attachment for its IBM tabulator, thereby increasing the power of the standard punched-card systems by several magnitudes.

After the war, both the Army and Navy sought to continue the development of sophisticated cryptologic equipment, but with no war

to fight, it found outside contractors less willing to undertake the research. The rigorous security clearances, oppressive physical security, and the limited usefulness of the equipment in the marketplace caused many companies to shy away from the field. Because of this, a group of former Navy officers, familiar with cryptography and SIGINT, banded together to form Engineering Research Associates, Incorporated, which took on some of the Naval Security Group's most complex assignments.

At about the same time, a group of engineers and mathematicians at the University of Pennsylvania's Moore School of Electrical Engineering completed an electronic marvel named ENIAC (for electronic numerical integrator computer), and thus gave birth to the computer era. ENIAC was an ungainly giant whose body was a good deal larger than its brain. Its total storage capacity was only twenty numbers, yet its eighteen thousand electron tubes took up the better part of a room thirty feet by fifty.

The development of ENIAC led to a series of lectures on the theory of computers presented at the Moore School and sponsored jointly by the Office of Naval Research and the Army's Ordinance Department. Among those attending the lectures, given between July 8 and August 31, 1946, was Lieutenant Commander James T. Pendergrass, of the Naval Security Group, whose assignment was to assess the potential of computers in the fields of cryptography and signals intelligence. Pendergrass came away from the lectures excited. Computers appeared to offer the flexibility that machines lacked. Where many of the machines were designed to handle one particular problem, such as breaking one foreign crypto system, computers could handle a whole range of problems.

Soon after Pendergrass returned with his favorable report, negotiations began between the Security Group and Engineering Research Associates for the formation of Task 13 and the design and construction of the SIGINT community's first computer, Atlas. Named after the mental giant in the comic strip "Barnaby," Atlas lived up to its namesake. By the time it was delivered to the Security Group in December 1950, Atlas had an impressive capacity of 16,384 words and became the first parallel electronic computer in the United States with a drum memory. A second, identical computer was delivered to NSA in March 1953.

About the time ERA was putting the final touches on Atlas, engineers of the Army Security Agency were busy building their own codebusting computer. Nicknamed Abner, the machine was completed in April 1952 and became the most sophisticated computer of its

time. One could enter or extract information from Abner not only with the standard key-punched computer card but also with punched paper tape, magnetic tape, parallel printer, typewriter, or console.

One of the most costly as well as far-reaching research programs ever undertaken by NSA was born not on a chalk-covered blackboard in R and E but at a cocktail party in July 1956. Over cocktails, several high-level NSA equipment planners began discussing with Director Canine one of the Agency's perennial problems: the race between the insatiable requirements of the codebreakers for new and better ways to attack ever-increasing volumes of data and the efforts of NSA engineers to design and build bigger and faster computers to meet these needs. No matter how powerful the new equipment, the engineers never seemed to catch up.

At the time, a new computer known as Harvest was being designed to fill such requirements with an estimated hundredfold improvement over the best current computers, but a completion date was still several years away. Exasperated by the situation, Canine exploded: "Dammit, I want you fellows to get the jump on those guys! Build me a thousand-megacycle machine! I'll get the money!" Within the next few days, Project Lightning was under way, with a budget of \$25 million for a five-year effort to develop "thousand-megacycle electronics."

Backed by President Eisenhower, Lightning research began in June 1957. Contractors on the project, believed to be the largest government-supported computer research program in history, included Sperry Rand, RCA, IBM, Philco, General Electric, MIT, University of Kansas, and Ohio State. Though the primary goal of the project was to increase circuitry capability by 1000 percent, the end results in actuality went even further, extending the state of the art of computer science beyond any expectations.

One of the most rewarding by-products of Lightning was the boost it gave to the development of NSA's mammoth Harvest complex. In 1955 IBM began planning its most ambitious computer, the Stretch. So huge was Stretch that IBM designers believed the market contained only two possible customers: the NSA and the Atomic Energy Commission. The AEC signed up for the computer primarily because of its advantages in high-speed multiplication, but NSA, looking for more flexibility as well as the manipulation of great volumes of data, sent the engineers back to the drawing board for a more customized version. In April 1958 a final design was approved, and in February 1962 the Puzzle Palace took delivery of its long-awaited Stretch, now modified and considerably faster.

Once in place as the heart, or, more appropriately, brain, of NSA's

enormous Harvest complex, even Stretch began to look somewhat diminutive. Attached was a variety of unusual, complex accessories that more than doubled the computer's original size. One was a unit known as Tractor, which was capable of automatically locating desired information from a magnetic-tape library of 160 cartridges, then mounting, positioning, and threading the correct tape, and transferring the information at a mind-boggling 1,128,000 characters per second. Whereas most magnetic tape contained a hundred bits to the inch, NSA managed to pack three thousand in the same space, and then whisk them past the reading heads at 235 inches per second. So successful was Harvest that NSA used it for the next fourteen years, finally switching to a more advanced system only in 1976.

Today the NSA's enormous basement, which stretches for city blocks below the Headquarters-Operations Building, undoubtedly holds the largest and most advanced computer operation in the world. Like that of a human, NSA's brain is divided into right and left hemispheres, code-named Carillon and Loadstone. Carillon, at one time made up of IBM 360s, today consists of four enormous IBM 3033s linked together and attached to three IBM 22,000-line-per-minute page-printers.

Even more powerful, however, is Loadstone. Dominating the center of a yellow-walled, gold-carpeted hall of computers, front-end interfaces, and mass storage units, is a decorative 4½-foot-wide, 6½-foot-tall hollow semicircle of narrow gold and deep green panels surrounded by a black, vinyl-upholstered bench-type seat. It appears to be an ideal resting place for lunch or a midmorning coffee break. It is, however, probably the world's fastest, most powerful, and most expensive computer.

Built by Cray Research of Mendota Heights, Minnesota, the \$15 million CRAY-1 may be the ultimate testimony to the old proposition that looks are deceiving. Housed within what one wag once called "the world's most expensive love seat" are more than 200,000 integrated circuits, each the size of a thumbnail, thirty-four hundred printed circuit boards, and sixty miles of wire. So compact is the five-ton, seventy-square-foot unit that enough heat is generated per cubic inch to reduce the machine to a molten mass in seconds were it not for a unique Freon cooling system using vertical aluminum and stainless steel cooling bars that line the wall of the computer chassis.

The supercomputer is the brainchild of Seymour Cray, an electrical engineer who began his career by building codebreaking machines in the early 1950s with Engineering Research Associates, then headed

by future NSA research chief and deputy director Howard Engstrom. Cray's dream was to build a number-cruncher capable of 150 to 200 million calculations per second. It would have between twenty and a hundred times the capacity of current general-purpose computers — or the equivalent of half a dozen IBM 370/1958.

In the spring of 1976 the first CRAY-1 rolled out of the firm's production plant in Chippewa Falls, Minnesota, and, apparently, directly into the basement of the Puzzle Palace. A second was quietly delivered to NSA's think tank, the Communications Research Division of the Institute for Defense Analysis at Princeton University.

With a random access semiconductor memory capable of transferring up to 320 million words per second, or the equivalent of about twenty-five hundred 300-page books, NSA could not have been disappointed. And when it was hooked up to the computer's specialized input-output subsystem, the machine could accommodate up to forty-eight disk storage units, which could hold a total of almost 30 billion words, each no farther away than eighty millionths of a second.

On top of this, NSA in 1983 plans to put into operation secretly an enormous worldwide computer network code-named Platform, which will tie together fifty-two separate computer systems used throughout the world. Focal point, or "host environment," for the massive network will be NSA headquarters at Fort Meade. Among those included in Platform will be the British SIGINT organization, GCHQ.

But even with the power of the CRAY-1, the Puzzle Palace is still searching for more speed, more power, and more memory capacity with such concepts as digital applications of Josephson Junction technology, optical logic elements, magnetic bubbles, and laser recording. Currently, NSA is conducting advanced research in analog optical computing technology as well as both light-sound interaction devices and charge-transfer devices for achieving more than one quadrillion (or 1,000,000,000,000,000,000) multiplications per second.

Until the mid-1970s, NSA's telecommunications and computer services were handled by two separate organizations. The Agency's communications functions were centralized within the Office of Telecommunications, but computer services were somewhat decentralized within the various organizations. The largest computer capability was controlled by DDO's C Group, which ran Harvest and provided the codebreaking organization with its computer support. About 1976, C Group was eliminated and all Agency computer functions were transferred to the newly reorganized Office of Telecommunications and Computer Services, known generally as the T Organization.

After the reorganization, in August 1976, Rear Admiral Eugene S. Ince, an eighteen-year cryptologic veteran and former director of the Naval Security Group, Europe, became chief of the T Organization. At one time the newly appointed Ince ventured down into the basement to take a look at Loadstone but was halted at the entrance by a security guard who could not find his name on the access list. "It's all right," he reportedly assured the guard. "I'm Admiral Ince and I'm in charge of this organization." Still, his name was not there, and he was sent packing. Needless to say, his name was promptly added to the list and the guard received a letter of praise for her security alertness.

In June 1978 Ince became head of the Naval Security Group and was replaced by Milton Zaslow, the former assistant DDO, who was just returning from London as NSA's senior United States liaison officer (SUSLO). Assistant deputy director of the T Organization since May 1977 is Kermith H. Speierman, a former top scientist for Burroughs Laboratories and later chief of NSA's Information and Computer Services Division. "K" Speierman was one of the principal figures in the telecommunications—computer services consolidation.

Several floors above and to the rear of Gatehouse 3, behind a solid steel-gray door pasted with warning signs and controlled by cipher lock, is the center of NSA's worldwide eavesdropping net. If NSA is America's giant ear, the T Organization's massive Communications Center is the ear's drum. Inside, row after row of rat-a-tat-tatting crypto machines bare the world's secrets on multicolored, six-ply carbon paper, each sheet repeating the word CLASSIFIED on one side while the other side repeatedly warns against disclosure under penalties specified by the espionage laws.

The chatter of Soviet transport pilots, the latest home communiqué from the Kuwaiti ambassador to Algeria, the singsong of a Chinese merchant telephoning an order for spare parts to a supplier in Kuala Lumpur — whatever the net snares crackles back to the Puzzle Palace over the Agency's own supersecret communications network, SPINT-COM, which is short for special intelligence communications. The intercepts make their way via SPINTCOM to a synchronous satellite 22,300 miles over the equator and are then beamed down to a pair of giant dish antennas hidden in a wooded area behind NSA. From there the intelligence flows via a \$500,000, three-quarter-mile-long underground cable past a \$2.2 million antenna control facility and into the COMM Center to be distributed to analysts, linguists, and codebreakers.

Also zapping in to the Puzzle Palace via the twin earth terminals

is another worldwide circuit, this one reserved for the most important and immediate of intelligence messages. The Critical Intelligence Communications network, or CRITICOM, is designed to flash to the President and a handful of other senior officials intelligence alerts and warnings of the highest priority — an imminent coup in a Middle East sheikdom, for example, or the assassination of a world leader, or the sinking of a Soviet sub. It is the goal of NSA to have such a CRITIC message on the President's desk within ten minutes of the event.

Because of the speed required to initiate a CRITIC, mistakes in separating good intelligence from bad occasionally occur. One such error took place several years ago, when an analyst at an Air Force listening post on the Greek island of Crete traced a Soviet bomber to a landing on a lake in central Russia. From his intercept equipment he knew that the aircraft had not crashed, so he shot off a CRITIC to the effect that the Soviet Union had apparently developed a new generation of bombers capable of landing on water. What he failed to realize, however, was that Lake Baikal is covered with a thick layer of ice during most of the year.

Once a CRITIC has been issued, further reports on the same subject often take the form of spot reports, one rung lower on the priority ladder. Still another level in the CRITICOM system are PENREPs, or penetration reports, issued whenever a Soviet strategic aircraft appears over non-Soviet territory.

In 1973 NSA's CRITICOM/SPINTCOM network was transformed into the Digital Network-Defense Special Security Communications System (DIN/DSSCS), which fully integrated the message traffic into the Defense Department's general service AUTODIN network (automatic digital network). A further advancement, known as Streamliner, was added in 1976. An automated communications system, Streamliner was designed to reduce writer-to-reader time through the reduction or elimination of many formerly time-consuming tasks, such as message-routing, filing, and formating, which previously had to be performed manually by communications personnel.

Office of Administration: Just down the hall from the Railroad Retirement Board in Boston's aging McCormack Post Office and Court House building stands the door to Room 406. Unlike the rest of the office doors lining the fourth floor, however, the door to 406 bears no name and is made not of glass but of solid, reinforced wood. Above, its transom is covered with plywood and nailed tightly shut. Beside the door, which is permanently locked on the outside, is a

small black button, which, when pushed, alerts an employee to open the door just a crack to question the visitor. Opening the door any farther would reveal the large, round seal on the opposite wall, a seal bearing the words NATIONAL SECURITY AGENCY—UNITED STATES OF AMERICA.

Officially opened on November 7, 1980, Room 406 contains NSA's Northeast Recruiting Office. As with almost everything else connected with the NSA, it is shrouded in secrecy. Chief head-hunter in the college- and university-saturated city is Charles Raduazo, who spends a considerable amount of his time on the road, going from college to college, quietly whispering the virtues of Anagram Inn. What he is hunting for, principally, are engineers, and of those the choicest of the lot are the double-E's, the electrical engineering wizards who may someday build a better signals trap. Mathematicians, especially at the master's or Ph.D. level, are also high on Raduazo's wanted list, along with a smattering of language majors, primarily those with Chinese, Slavic, Near Eastern, and Asian skills. Occasionally the need will arise for a particular exotic language — such as, for example, an Indonesian dialect called Sana.

Once they've got the candidates' attention, the recruiters then leave them with an 11-by-8½-inch glossy giveaway that manages to go its entire twenty pages without ever once informing the reader that he or she is being asked to work for an intelligence agency. The pamphlet even makes an Orwellian attempt to rewrite history, by declaring in its opening paragraph: "Some time before the second world war, a cabinet officer closed down a U.S. codemaking operation with the admonishment that 'Gentlemen do not read each other's mail.' " By transforming the Black Chamber from a code breaking organization into a codemaking organization, the NSA managed not only to change history but to create a nonsensical paragraph.

The next step for the future and would-be spooks is the standardized Professional Qualification Test (PQT) administered under contract by the Educational Testing Service. The exam is designed not just to test the candidates' academic knowledge but to spot the "cipher brains." One question, for instance, asked the applicant to imagine that he or she was an anthropologist on a high cliff overlooking a series of islands. From the perch the anthropologist could see messengers in canoes zigzagging between the islands. In addition he or she could see smoke signals sent from island to island. After reading about a half-page of information like "Canoe A goes to island 3 then to island 7 then to island 5 and so on while Canoe B goes to island 12 then island 1 . . . In the meantime smoke signals are sent from

island 6 to island 3 . . ." the applicant must answer questions like "Which island is the chief of the group?" and "Which island controls communications?" and "Which island is the least important?"

Another question may deal with a company scattered throughout a large office building that communicates between offices by means of an unreliable intercom system. The applicant is again given information: "Because of faulty wiring, in order for a person in office A to communicate to someone in office E, he must go through office C, but those in office C can only communicate with persons in office E by first going through office J..." This account goes on for about half a page; then the applicant is asked "How would one get a call from office J to office B?" and "What if no one was in office A, how then would a person call from office Y to office H?" and about ten more such questions.

Those who leave the examination room without having suffered a severe breakdown probably assume NSA installs intercoms on South Sea Islands. But this portion of the test is designed to ferret out those few with the rare ability to become masters of traffic analysis, to search through reams of messages and come up with patterns.

Throughout March, those who are finally selected — usually about 150 of the two thousand or so who apply each year from around the country — come down to the Agency's Friendship Annex (FANX) for preemployment screening. There, in the NSA's new four-story Airport Square Building, the new recruits spend their first day going through personnel interviews, filling out forms, and getting a medical checkup. Then they go down a narrow passageway to a set of swinging doors opposite a small sign listing the name of Robert Bates and his title: Chief of Polygraph Services.

Through the doors are numerous small offices painted in pastel hues, each with a glass window on one side and a large two-way mirror on the other, which is used by polygraph personnel to monitor sessions occasionally. The machines, sixteen in all, are built into oversized, well-polished, wood-grain desktops and look something like a new electronic game. Behind the machines in the small rooms, the Agency's twenty certified examiners study the slow, back-and-forth movements of the four or five thin, red-ink pens and make notes after each question. On the other side of each desk, the applicant sits in a large, heavily padded, executive-type swivel chair. What keeps a recruit from being mistaken for a corporate tycoon, however, are the electrodes attached to his or her fingers; thick, black belts strapped around the chest; and bulky blood pressure pads around the upper arm.

The polygraph program began early in 1951 with the hiring of six examiners at annual salaries of \$6400, and it remains the most dreaded part of NSA's admission ritual. Originally conducted in a well-guarded, ominous-looking building at 1436 U Street, N.W., in Washington, before the office moved to the Operations Building and then to FANX III, the sessions earned a black eye during the 1950s and early 1960s because of the heavy dependence on the EPQ, or embarrassing personal question. These questions are almost inevitably directed toward intimate aspects of a person's sex life and bear little relationship to the person's honesty or patriotism. Following a congressional investigation and an internal crackdown, the personal questions are now somewhat tamer. "Have you ever had an adult homosexual experience?" for example, is one of the standard questions today.

Following the polygraph, applicants undergo a battery of psychological tests to determine their suitability for both employment and access to the Agency's highly classified materials. Ninety percent of all applicants are interviewed by a clinical psychologist. The results of the psychological tests, together with the polygraph report, are forwarded to the Pentagon's Defense Investigative Service (DIS), where an intensive special background investigation (SBI) is begun.

Unlike a routine background investigation — which includes a check of all federal investigative agencies for derogatory information (called a National Agency Check), verification of birth and citizenship, a check on college education and full-time employment within the previous five years, a check of local criminal justice records, and a credit check — the SBI goes even further: it covers fifteen years and includes a neighborhood check. Passing a BI is required for a top secret clearance, but a successful SBI is necessary for the highest of all Defense Department clearances, the sensitive compartmented information, or SCI clearance, which is a prerequisite for employment at the Puzzle Palace.

After the SBI is completed (it often takes more than a year), the results are sent back to NSA for evaluation. All information obtained about an applicant from the poly, psychological testing, and the full field investigation is then put together and brought before NSA's Applicant Review Panel, comprising representatives from the personnel, medical, and security offices. The board examines each applicant on the "total person" principle and gives the candidate a thumbsup or refers the case to the director of personnel for a "we regret to inform you" letter.

The second day of the two-day program, for which another oneday badge is issued, consists mainly of more briefings, including a security briefing, an unclassified operational briefing, and, for a few of the most desirable prospects, possibly even a tour of an operational area. This, however, requires the sanitizing of the entire area — everything classified must be removed — so it is seldom given.

Following their forty-eight hours at FANX, the recruits head back to school to finish their last semester and, in the meantime, to sweat out the background investigation, which takes about four or five months. Those who pass the SBI and decide to try out the Puzzle Palace generally come on board as GG-7s, which at the beginning of 1981 stood at \$15,193 a year. Engineers were paid annual bonuses and could even start off at \$22,000 a year if employment chief Robert A. Dedad felt the potential employee was worth it.

Once cleared and on the payroll, the employee may be given further tests to determine which particular field he or she is best suited for. Some of the tests are clearly designed to pick out the cipher brains; they include such esoteric titles as "Garbled Telegrams," which requires answers to questions based on "telegrams" distorted by typographical errors. Another is "Matrices," which involves identifying or reconstructing a letter or number pattern in order to find the missing entry or original pattern. "Digit Identification" requires one to determine a designated missing digit in an arithmetic computation in which asterisks have been substituted for many of the digits. In "Number Series" the person must first determine the principle on which a number series is based and then indicate what the next number in the series will be.

Depending on the results of the exams and other considerations, the employee will be assigned to one of twenty-three professions in fourteen different career fields (see the Appendix), usually starting off as an intern. The Traffic Analysis Intern Program, for example, is three years long and consists of formal courses, such as Basic and Intermediate T/A, Computer Aid to T/A, and Advanced Traffic Analytic Disciplines, interspersed with six or eight on-the-job assignments, each from three to six months long. Once the internship is completed, the person can rise only to about the GG-11 level. Beyond that, he or she must first "professionalize," which means meeting the requirements established by a Traffic Analysis Career Panel. After being certified as a professional traffic analyst, he or she is eligible to compete, at appropriate stages, up to the supergrades.

The path is somewhat different for those who enter without a college degree or do not go through the internship program. A typical employee may start off in DDO as an analytic assistant and then become a cryptanalysis technician, with a grade range of GG-12.

Beyond that, just as with a cryptanalysis intern, he or she would have to professionalize as a cryptanalyst in order to rise any higher.

In addition to hiring and firing, the Office of Administration also runs the Agency's security force, issues countless personnel management letters, and enforces the Agency's voluminous internal rule book: the NSA Personnel Management Manual. Keeper of the rule book from 1976 until October 1980, when he was sent to London as senior United States liaison officer, was Dr. Don C. Jackson. He was replaced by Louis J. Bonanni, the former assistant director for Installations and Logistics.

Office of Installations and Logistics: Hidden beneath the same heavy blanket of secrecy that covers the Agency itself is a cozy fraternity of electronics, communications, and computer suppliers. They could aptly be termed the Crypto-Industrial Complex. Some — like IBM, Motorola, and RCA — are household words; others — like Ultra Systems, Harris Corporation, and Sanders Associates — are considerably less well known outside the SIGINT-COMSEC community. Nevertheless, they all have one thing very much in common: a desire to get as many of NSA's cryptologic contracts as possible.

Because NSA depends almost entirely on outside contractors to build its SIGINT and COMSEC equipment as well as to carry out a large chunk of the research and development that goes into it, cryptology has become a billion-dollar business. By January 1977 the number of active contracts maintained by the Agency had risen to over seven thousand, with an aggregate contract dollar value of about \$900 million. Yet, because only 8 percent of those seven thousand contracts account for more than 86 percent of the \$900 million, competition for the big, complex projects, such as Rainmaker, Silkworth, and Maroon Shield, is fierce.

Until the mid-1970s, all NSA contracting had been handled by the Army under the cover name "Maryland Procurement Office." When NSA was originally formed, General Canine was advised by the Pentagon to use his billet strength strictly for operational activities and to depend on the Army to do his buying for him. This, it was argued, would also have the advantage of avoiding duplication.

The major problem with the system, however, was that 90 percent of the people doing the contracting had not much in the way of security clearance, and thus their role was limited to little more than that of a bystander. In addition, the technical expertise needed to deal with the supersophisticated crypto devices was well beyond the reach of most of the Army military and civilians involved in the con-

tracting process. In fact, according to Richard P. Floyd, former chief of NSA's Procurement Policy and Support Division, "the people that do that professional business for the Army are ninety-eight percent non-college graduates. They are old-timers who have been shuffling papers since they got out of high school. They know the jargon and they know contract law — they've lived it — but they can't in any way stand up to the doctoral, academic brains out at NSA who make machines. First of all, they didn't even have a right to because they didn't have a clearance — and that's the way they liked it!"

As the system developed, engineers from PROD/DDO or COMSEC would get together with their counterparts in the Office of Research and Engineering and present them with a particular problem. R and E, the Agency's connection with the outside world, would then go to a particular contractor and work up a possible design solution for the problem. Finally, after a handshake, R and E would turn to Army procurement and say, according to Floyd, "'Hey, I want to buy this — rubber stamp this contract.' What I'm saying to you," Floyd emphasized, "is that the way the system evolved, systematically, the commitments were made long before they legally should have been made."

Toward the mid-1970s, the Army inspector general took notice of the situation and began questioning procurement officials. He wanted to know how they could award contracts for equipment and systems about which they were, by and large, uninformed. As a result, the Army happily washed its hands of the whole business and allowed NSA to take over the entire Maryland Procurement Office.

On June 30, 1975, the Army moved out, and the NSA moved in twenty contracting officers, sixty-three negotiators, and about twenty administrative and clerical workers. Head of Procurement was Elizabeth R. Haig, an NSA veteran who had previously served as the general counsel for R and E.

But despite the change in faces, the old-boy network of contract awards apparently continued to thrive. That, at least, is what Floyd told Director Lew Allen during a classified briefing on January 19, 1977. At forty-seven, Floyd had spent more than half his life with the Agency. Joining the old AFSA in June 1951, the Boston College graduate began as a linguist and in 1957 was named chief of ALLO-34, responsible for Middle East traffic analysis. In 1963 he devised the Far East ELINT policy for B Group and two years later was appointed inspector general. Following a year on Capitol Hill as a Congressional Fellow, Floyd took over responsibility for developing collection policy, third party collaboration, and field support for B Group.

After several more assignments in DDO and R and E, Floyd, who had managed to pick up his law degree along the way, moved over to the Installations and Logistics Organization as chief of Procurement Policy and Support.

In his briefing, Floyd told Allen of the Agency's proclivity for non-competitive, sole-source contract awards. He identified the major violators within the NSA, the contractors, and the amounts of money involved. To overcome the problem, Floyd asked for authority to recruit a team of lawyers and accountants who could learn the business and become fully involved *before* commitment and thoroughly review and constructively oppose sole-source procurement.

As sensible as the idea was, to many in the Agency — particularly those in R and E and others in Procurement — it amounted to nothing less than heresy. "Within two weeks after the briefing," Floyd later said, "systematic harassment . . . was commenced." He noted, "If you control the procurement process and the people who administer it in an agency the size of NSA, you're talking about a lot of power."

The "harassment" began when Procurement chief Haig requested that Floyd undergo a medical and psychological evaluation because of "a number of explosive and argumentative incidents" that were adversely affecting his productivity and relationships with co-workers and superiors. Floyd is a burly man with thick black hair and a strong determination. He was insulted by Haig's statements, which he called false and defamatory, and he requested a grievance hearing before an outside examiner. In the meantime, he reported to the Agency's chief in-house psychiatrist, Dr. Robert L. James, who reported that Floyd "did not show sufficient evidence to make a diagnosis of psychiatric disorder," but nevertheless recommended that he see a mutually acceptable outside psychiatrist, Dr. S. Eugene Long, for a "fitness for duty evaluation."

Long's report, issued on May 14, said that, though Floyd's exhaustion from overwork and, possibly, his high blood pressure may have exacerbated matters, the doctor could "find no indication of psychiatric disorder, nor of significant anxiety felt as such by Mr. Floyd."

Less than two weeks later, Charles W. Matthews, the grievance officer who investigated the case, issued a generally favorable report, pointing to Floyd's "exceptional talents and potential," and noting as the root cause of the conflict "the blatant, potentially explosive understaffing conditions." Matthews recommended that Floyd be reassigned "to a position where his talents can be employed to the best advantage of the agency."

Instead, the Agency's new director, Vice Admiral Bobby R. Inman, after giving "full consideration" to the case, decided that Floyd's grievance "is not sustained" and promptly fired him from his \$38,293-a-year post. Floyd, in turn, brought a \$3.5 million damage suit.

The protest that sparked Floyd's troubles apparently had little effect on Procurement's rubber-stamp activities. Two months after Floyd gave his briefing to Director Allen, an \$18 million modification for a contract code named Silkworth came up for review. The formal review consisted of two procurement officers, at about three-thirty one afternoon, scrounging up a third at the last minute, then talking over the contract for about forty-five minutes before stamping their approval and, apparently, rushing out the door to beat the four-thirty traffic jam.

Only because of a formal complaint by Floyd, an inspector general looked into the contract award and concluded

that the amount of time (45 minutes) spent by the board was, in this instance, insufficient for the members to feel confident in their recommendation for approval. Also a feeling of resentment was expressed by the board members for what was claimed to be a practice of "hurry up" in a process that requires methodical attention. In conclusion, the IG recommended that management planning provide sufficient time for the review process.

Although probably the most important division within the Office of Installations and Logistics, or L Organization, Procurement is not the organization's only function. Other responsibilities include growth planning for SIGINT City and NSA installations overseas, as well as the usual assortment of household maintenance chores — such as what to do with the NSA's flux of classified waste.

Run by military officers for many years, the L Organization went civilian in April 1977 with the appointment of Louis J. Bonanni as assistant director for Installations and Logistics, following the sudden death of his predecessor, Air Force Brigadier General Charles E. Shannon.

Office of Plans and Policy (DDPP): Unlike the other NSA offices, DDPP (deputy director for Plans and Policy) is primarily a staff position. Its origins date back to the mid-1960s, when General Carter established the executive for Staff Services to function as a sort of chief of staff. In March 1977 Director Allen upgraded the position to assistant director for Policy and Liaison (ADPL) and in January 1980 the

ANATOMY 113

office was eliminated and replaced with an even more powerful one, the DDPP, a position filled by Richard N. Kern.

Office of Programs and Resources (DDPR): Like DDPP, DDPR is basically staff-oriented. Known in the 1960s and early 1970s as the Office of the National Cryptologic Staff, its chief, until he left to head up NSA's Pacific command in 1968, was Rear Admiral Lester R. Schulz, who, a dozen hours before the bombs began raining on Pearl Harbor, handed the thirteen-part Purple intercept to President Roosevelt in his White House study and heard him say, in effect, "This means war." As assistant director for the National Cryptologic Staff, Schulz had the unenviable position of liaison between NSA and the service cryptologic agencies. It was a job that required a significant amount of diplomacy and tact in dealing with the parochial interests and clashing personalities of the three military groups and the basically civilian organization.

During the early 1970s the functions were taken over by an Office of Plans and Resources, which, like its predecessor, prepared the SIGINT community budget, the Consolidated Cryptologic Program. After a succession of Navy rear admirals, Air Force Major General Howard M. Estes, Jr., was appointed assistant director for Plans and Resources (ADPR) in August 1979. Five months later his office was reorganized, and Estes became deputy director for Programs and Resources (DDPR).

Office of General Counsel: When the Agency's first general counsel, a civilian by the name of Smith, was about to retire, he made the surprising suggestion to General Canine that the post of general counsel be abolished because it was unnecessary. Canine took his advice and did away with the office, much, no doubt, to the chagrin of Smith's assistant and heir apparent, Roy R. Banner, who became merely the NSA's legal assistant rather than its general counsel.

This changed in 1965, however, when General Carter upgraded the post and named the fifty-year-old Banner his general counsel. Apparently downgraded again in a later reorganization shuffle, Banner's office was placed under Gerard P. Burke, who was named assistant director for Legal and Legislative Affairs (ADLA) in March 1977. Burke had served an earlier tour in NSA and had then become executive secretary to the President's Foreign Intelligence Advisory Board. He returned to NSA in July 1976 as special counsel and eight months later was named ADLA.

Believing that outside lawyers, uninfluenced by years in the intelli-

gence business, might better keep NSA clear of the array of illegal abuses that had marked its past, Admiral Inman appointed Daniel B. Silver general counsel in February 1978. Inman did away with the title of assistant director for Legal and Legislative Affairs and made the post of general counsel a full key component, responsible directly to him through the deputy director of the Agency.

Silver, a thirty-seven-year-old Harvard Law School graduate, left the Puzzle Palace in October 1979 to become the new general counsel for the CIA. He was replaced by Daniel C. Schwartz, a former Federal Trade Commission lawyer.

National Cryptologic School: "The magnitude of their education, of their mental capacity was just overwhelming to me," Carter recalled of the people he found himself surrounded with when he became director. "I made a survey . . . when I got there and it was just unbelievable, the number of Ph.D.s that we had at the operating levels — and they weren't sitting around glorying like people do."

To channel the mental power in the right direction, the NSA established what must be the most selective institution of higher learning in the country: the National Cryptologic School. The NCS was the final metamorphosis of the Training School that had started out on the second floor of a rambling wood-frame building known as Temp "R" on Jefferson Drive between 3rd and 4th streets in southwest Washington. Here, in the early 1950s, the students would clamber up the creaking stairway between wings 3 and 4, past the guard post, and disperse into the five wings of the school.

Today, the NCS occupies a modern, seven-story tower at NSA's FANX location. Opened on November 1, 1965, the school offers a wide range of both technical and analytical courses, ranging from the basic eight-week Cryptologic Orientation Course (CY-001), which details the role of the NSA in the U.S. intelligence community, to Introduction to SIGINT Technology (EA-010), to the advanced National Senior Cryptologic Course (CY-600), a seven-week, full-time course for senior managers in the SIGINT community. For the forty-five students taking the spring 1976 CY-600 course, the schedule included such things as a four-day seminar entitled Cryptologic Issues in National Security, and a politicomilitary simulation called Kappa-76.

But of all the courses, none can compare with the one titled Intensive Study Program in General Analysis. Offering the equivalent of a Ph.D. in codebreaking, the seminarlike eighteen-week course is designed for the career, senior-level analyst. It is given once a year, from February to June, and is limited to a select twelve students,

ANATOMY 115

who study over sixty books and documents, attend lectures and group discussions, and do more than four hundred practical exercises that inculcate them with an understanding of both theory and application.

Although the course has definite advantages in terms of career advancement, for those lucky enough to graduate it has a most prestigious side benefit: admission into the supersecret Agency's own supersecret fraternity, the Dundee Society.

Attired in a fitted beige Nehru jacket with an odd-looking ecclesiastical decoration around his neck, white trousers said to be woven from the hair of virgin llamas, and white leather shoes reputedly crafted by reformed anthropophagi from the Andaman Islands, the mysterious "Guru and Caudillo" presided over a secret society symbolized by a Dundee marmalade jar containing the world's first codebreaking machine: four well-sharpened pencils.

Similar marmalade jars are on each student's desk along with a card bearing the first cardinal rule of the course: "You break jar, you eat marmalade" (to empty a jar to replace the broken one). Once the course is underway, the dozen students begin attacking the maddening code systems of the mystical kingdom of Zendia and attempt to read the traffic of its prime minister, Salvo Salasio.

Also known as the Nameless One and His Cerebral Phosphorescence, the Guru and Caudillo was Lambros D. Callimahos, an NSA legend. For twenty-two years the white-haired Mr. C. with the gentle blue eyes and natty bow tie taught the Intensive Study course with a rare combination of wit and brilliance. (His more elaborate attire was reserved for meetings of the Dundee Society.)

Born of Greek parentage in Cairo on December 16, 1910, he came to the United States at the age of four. By the time he was twenty-four, after studying the flute at the Juilliard School of Music and in Paris, Callimahos had become a world-renowned flutist.

While he was earning his reputation as a first-class musician, Callimahos was also learning all he could about cryptology, a subject that had fascinated him since he first read Edgar Allan Poe's story "The Gold-Bug" when he was eight. On his concert tours through Europe, he would ransack libraries for books on the subject. Fluent in seven languages, Callimahos would jot down notes in black loose-leaf notebooks, using a different language every day of the week in order to maintain his fluency.

On February 11, 1941, the flutist volunteered for the Army's Signal Intelligence Service dressed as his virtuoso status demanded: waxed mustache, goatee, black hat — the biggest one he could find in Paris's Latin Quarter — long black Chesterfield coat, black suit, black gloves, ebony cane, black spats, black shoes, black briefcase, and a white

silk scarf. "I looked just like a spy out of a Viennese operetta, or perhaps an advertisement for Sandeman port — it really shook them up," he recalled many years later.

Receiving a commission despite his outfit, Callimahos served in the China-Burma-India Theater as an assistant theater signals intelligence officer. Following the war he took up residence at Arlington Hall, where he became technical assistant to William F. Friedman, and continued as a civilian with the Armed Forces Security Agency and NSA. He was a prolific writer and the author of more classified technical books and monographs than any other government cryptologist. Among his works, written with William F. Friedman, are three massive volumes on military cryptanalysis (MC I, II, and III), as well as articles on codes and ciphers for the World Book Encyclopedia, Collier's Encyclopedia, and the Encyclopedia Britannica.

On October 28, 1977, Lambros Callimahos, sixty-six, died of cancer at Walter Reed Army Medical Center.\* Three months earlier, wearing his finest Nehru jacket, the Guru and Caudillo had presented Dundee certificates to the students in his thirty-second class of General Analysis, along with an honorary membership to CIA director Stansfield Turner.

Named as the first "dean" of the National Cryptologic School was Frank B. Rowlett, Friedman's first employee (after his secretary) in the newly formed Signal Intelligence Service in 1930. In 1958, after five years with the CIA, he replaced the retiring Friedman as special assistant to the director, a position he held for eight years under four directors. Rowlett led the study group that prepared the way for the National Cryptologic School's founding and stayed on as commandant to give it some direction. He retired two months later, on December 30, 1965. On March 2, 1966, Rowlett became the third NSA employee to win the intelligence community's top award when President Johnson presented to him the National Security Medal during a ceremony at the White House. If the surroundings looked familiar to him, it was because he had been there a brief nine months earlier to receive the President's Award for Distinguished Federal Civilian Service, the highest award given to a civilian in the federal government. "His brilliant achievements," read the presidential citation, "ranging from analyses of enemy codes to technological advances in cryptology, have become milestones in the history of our Nation's security."

Commandant of the National Cryptologic School and assistant di-

\* NSA's Bruce W. Fletcher took over as director of the Intensive Study Program and also as head of the Dundee Society, albeit with the title Guri-ji, or Little Guru.

ANATOMY 117

rector for Training (ADT) from July 1979 until April 1981 was Eugene J. Becker, who holds an M.A. from Harvard in Middle Eastern studies. Following his tour at the NCS, Becker became the NSA representative to the Pentagon and was replaced by Robert L. Prestel, a one-time chief of the school's cryptology department. In 1979, at various times, close to 19,000 students were enrolled in five hundred different courses. About 13,500 of these were NSA civilians, 2500 were NSA military, and the remaining 2800 were from other government agencies or military services.

In addition to the NCS, the Puzzle Palace also offers a broad selection of rather esoteric professional associations, known as Learned Organizations. One of the first established was the Crypto-Linguistic Association, which itself has a number of subgroups. The members of the Special Interest Group on Lexicography (SIGLEX), for example, strive to push ahead the state of the art of dictionary- and glossary-making, including dictionaries for unwritten languages! Two other Special Interest Groups are SIGVOICE, concentrating on topics ranging from accents to spoonerisms, and SIGTRAN, dedicated to the art of translation.

Lectures sponsored by the association have covered such subjects as the status of research in the field of computerized translation of the human voice (one of NSA's ultimate goals), to a talk by Professor Ernst von Glasersfeld, of the University of Georgia, on Yerkish, a symbolic language for communicating by computer with chimpanzees.

Also sponsored by the association is an award program named in honor of its first president, the late Dr. Sydney Jaffe. The award is presented to those "whose achievements in the field of languages have contributed to the mission of the cryptologic community"; the two recipients who shared the first award, in 1973, commanded between them seventeen languages.

Other Learned Organizations are the Crypto-Mathematics Institute, the Computer Information Sciences Institute, and the International Affairs Institute. The traffic and signal analysts have their Communications Analysis Association, the cryptanalysts have their Kryptos Society, and the intercept operators have their Collection Association, which presents an award to the best eavesdropper ("communications processor") of the year.

## **PENETRATION**

LIKE A HEAVY FOG, secrecy and security inside the Puzzle Palace permeate the air. Staring down from pastel walls, security posters declare: YOU ARE A SECURITY TARGET and SAFEGUARD CLASSIFIED INFORMATION. Others are less subtle. One depicts a man with gun in hand, noose around his neck, his feet embedded in a concrete block, a chain around his ankle attached to a five-hundred-pound weight, and his mouth taped shut. Below is the inscription "You don't have to go to extremes . . . JUST DON'T TALK!" Another pictures a wastebasket, containing copies of the New York Times, Newsweek, and other news sources, below the caption snooper bowl. Underneath are the words "Every litter bit hurts." The slogans also appear throughout the buildings, flowing across moving electronic signs. At one point even placemats for the cafeteria had security slogans printed on them.

For many years, until December 1977, the Agency's first line of defense, beyond the triple fence, in an overall program known as "security in depth" was the Marines. Activated on October 15, 1954, as the first (and only) Marine Guard unit ever assigned to a national intelligence organization, they manned the gatehouses surrounding SIGINT City, checking badges and sorting through briefcases, purses, and lunch bags. For five hours before they took up their guard positions each day, they would form what was known as an Alert Force and remain quartered in a Marine barracks three hundred yards behind the Operations Building. In the event of a threat to security, they would grab their helmets and weapons and rush to the trouble spot.

Beyond the gatehouses, a dizzying system of magnetic, color-coded, key-punched badges determines where in the buildings a person is allowed to go. Those fully cleared and with the requisite "need to know" wear the green badges granting them access to all but specially compartmented spaces. Yellow is reserved for non-NSA employees,

such as the representatives of the foreign SIGINT organizations with offices in the Agency. For those holding anything less than a full clearance, red badges are issued.

Emblazoned on the front of the badge is the bearer's name and social security number, along with a full-face picture. The reverse, like that of the visitor's badge, contains a warning against improper use and a post office box address in the event of loss, but no mention of the Agency.

Still other badges are used for specific purposes. For example, anyone transporting documents from the building must first obtain a Courier badge from his or her section's security officer.

There are a dozen or more badges in the different colors of the spectrum marked with a variety of designs, from solids to diagonal stripes. Further access control is provided by "tabs" attached to the chain above the badge. Some denote a particular function, such as NSA Photographer; others grant special access to the wearer.

At times the system can be bewildering. For instance, when the Agency was in the process of moving, bag and baggage, from Washington to its present location at Fort Meade, additional badges had to be issued. Green was for cleared NSA personnel, white for moving supervisors, pink for uncleared contract laborers, blue for uncleared military and civilian truck drivers, and yellow, when worn with a red picture badge, for the management representatives of contractors.

But color is not the only security indicator built into the system. Each badge is also key-punched like an IBM card, so that by inserting it into a reader one can instantly determine the holder's current status.

Just as bewildering as the chromatic system of security badges is an Alice-in-Wonderland system of code words,\* caveats, and security classifications that are, in fact, themselves classified.

While most in government are familiar with the standard confidential, secret, and top secret security classifications, few outside the inner circles of the intelligence community are aware of a supersecret dual system designed for the handling of SIGINT information.

The keystone of this system is the warning HANDLE VIA COMINT CHANNELS ONLY. Once a document is so marked, it is automatically elevated to a status higher than top secret; it is restricted to those

<sup>•</sup> It is interesting to note that there is a distinction between code words and nicknames. A code word is a single word selected from an arcane document known as the JANAP 299 (for Joint Army, Navy, Air Force Publication) and is always assigned a classified meaning; a nickname consists of two words and is assigned an unclassified meaning. (Department of Defense Regulation 5200.1R, D-1.)

few holding a final top secret special intelligence clearance and indoctrinated into the tight-lipped world of SIGINT. Few messages, letters, or reports leave the Puzzle Palace without the injunction.

Once the document has been removed from the more plebeian security classifications, an arcane assortment of code words further limit access to it. TOP SECRET UMBRA, for example, indicates that the information is of the highest SIGINT sensitivity. Previously the code word for this was Trine and before that, during the early 1960s, Dinar. Still others have included such exotic designations as Vipar, Harum, Froth, and Canoe. One step below, paralleling the conventional Secret, is Spoke, always written SECRET SPOKE.

Though words like Umbra and Spoke indicate a general level of sensitivity, other five-letter code words are more specific in their meaning. Gamma, for instance, was reserved for Soviet intercepts of the very highest importance and also, ironically, starting in 1969, for the monitored conversations of American antiwar leaders like Jane Fonda and Dr. Benjamin Spock.

Additional code words, always beginning with the letter G and containing four letters, narrowed the source of the Soviet communication even further. Gupy, for example, was used to indicate that the source of the information was the intercepted conversations of top Soviet officials, including party leader Leonid Brezhnev, President Nikolai Podgorny, and Premier Alexei Kosygin, as they conversed over their limousine radiotelephones. Another four-letter code word in the Gamma series referred to information about Soviet-Arab communications, and still others to mail openings and information from foreign code books. In all, about twenty different code words were assigned to the Gamma series, among them such unlikely ones as Gilt, Gout, Gult, Gant, Gabe, and Gyro.

Designating a somewhat less sensitive area of Soviet intercepts was the Delta series of code words. These referred to information on Russian military operations, such as the location of Soviet submarines or Russian aircraft operations. Among the Delta words were Dace, Dice, and Dent.

In addition to code words indicating the level of sensitivity and source of the information, there are code words for specific operations. Holystone and Desktop, for instance, designate several highly sensitive undersea operations.

Essentially, each code word is a separate, highly specialized entity. Access to Gamma Gilt does not give one access to Gamma Gout, just as access to Holystone does not automatically grant access to Desktop. Each requires separate briefings, indoctrination, and oaths.

Often a document contains references to a number of operations and sources and carries a stupefying classification like TOP SECRET UMBRA GAMMA GANT HOLYSTONE DESKTOP. In such a case the reader would have to be cleared and certified for each category.

Though most code words "retire" because of the loss of a particular source or the end of a particular mission, some remain unchanged for decades. Occasionally, the code word has to be changed because it has been compromised. This is what happened on March 28, 1965, when the New York Times Magazine ran a story by Max Frankel profiling President Johnson's assistant for national security affairs, McGeorge Bundy.

With the article there was a photograph of Bundy speaking with Johnson on the White House lawn, and, although little appeared out of the ordinary about the seven-month-old file photo, to the trained eye it was a most revealing picture. Captured by the photographer's lens, and clearly visible in print, was a spiral-bound document in the presidential assistant's left hand bearing the boldly stamped words TOP SECRET DINAR.

The compromising picture instantly created a flap at both the CIA and the Puzzle Palace. A CIA employee was dispatched to New York to request the negative, which, if blown up, might reveal even more of the document. Meanwhile, Lieutenant General Carter, then deputy director of the CIA and soon to become director of the NSA, got on the phone to Bundy to brief him on the photo and the consequences of its publication.

"Hey, Mac," Carter remembers asking a surprised Bundy, "you got two hundred and fifty thousand dollars in your confidential account over there?" When asked the reason for the question, Carter informed Bundy of the compromised photo and the high cost of changing a SIGINT code word—a cost, the general said, he hadn't budgeted for.

It was an expensive and time-consuming proposition. Unlike Defense Department code words that are used strictly by the U.S. military, many SIGINT code words, including Umbra, are used throughout the supersecret international SIGINT community. If any of these become compromised, thousands of rubber stamps bearing the old word have to be recalled, and new stamps with the revised code word must be made and then transported by courier to every listening post. Carter added, "We've got to get the British and the Australians and the New Zealanders and the Canadians and everybody in the act."

Because of what has become almost a fetish of rubber stamps and

red ink, even many unclassified letters leaving the Puzzle Palace are tattooed with warnings and restrictions. Responding to a Freedom of Information Act request with a copy of an unclassified, innocuous internal memorandum, the Agency saw fit to decorate the envelope with RESTRICTED DELIVERY, DELIVER TO ADDRESSEE ONLY, and POSTMASTER: DO NOT FORWARD OUTSIDE AREAS SERVED BY U.S. CIVIL POST OFFICES. It also sent the memo by certified mail, with return receipt requested. And this despite the fact that the original request specifically stated the information was to be used for publication.\*

Yet for all the barbed wire and electrified fences, the cameras, the badges, and the armed guards, NSA's greatest threat comes not from without but from within. Even during the protest-ravaged sixties and early seventies, few demonstrators had ever heard of the NSA, let alone knew where to protest against it. The one exception, and the only "confrontation" in its entire history, took place on March 22, 1974. Veteran activist and former Catholic priest Philip F. Berrigan and his wife, in one of their typically small antiwar demonstrations, led a group of twenty-one protesters to the Agency's main gate, where they proceeded to pour a gallon of human blood over a wooden cross while decrying the "American war machine." Twenty minutes and three arrests later, the demonstration was over and the gathering trooped back down Savage Road. The Puzzle Palace had at last had its brief brush with the world outside.

But it is not the Berrigans whom security officials fear; it is the turncoats, the employees who, because of money, blackmail, or ideology, have decided to switch sides. And it is toward their early elimination that the Agency's security clearance program is directed.

The first step in NSA's clearance process is also the most dreaded—the polygraph. Despite Pentagon directives that state, "The polygraph shall be employed only as an aid to support other investigative techniques and be utilized generally only after the investigation by other means has been as thorough as circumstances permit," NSA uses the lie detector as an initial security screening measure.

Unlike the CIA, NSA explicitly uses the poly as a primary tool for the collection of adverse information on potential employees. According to the Agency, at least 95 percent of all negative information on applicants comes from the polygraph, and 85 to 90 percent of this information is considered significant enough to warrant investiga-

<sup>•</sup> So frustrated was the Carter administration over the loose way in which intelligence information was being handled that the President created still another category: Royal. This was to be used primarily on highly sensitive intelligence documents when disclosure of the material contained in them could also result in disclosure of the source.

tion. Out of 2531 applicants for whom security processing was completed during fiscal year 1978, 775 were rejected.

Although security at the Puzzle Palace appears close to hermetic, much of it is little more than illusion. Triple-wrapping in chain link and electricity notwithstanding, access to the front lobby and plush reception area is easier than walking into a Greyhound bus station. Although the Agency is located on an Army base, there are no guardhouses or MPs checking passes; in fact, were it not for a WELCOME sign on Savage Road, one would not even realize he or she had entered a military base.

Once on the base, anyone from the Soviet ambassador to Yassir Arafat can walk up the dozen or so steps and into the reception area, no questions asked, take a seat, and begin listening to some very interesting conversations. Actual examples include several members of Britain's ultrasecret GCHQ comparing security at NSA with that "in the Cotswolds" while waiting for their security badges to be issued, a member of Canada's equally secret Communications Branch of the National Research Council (the Canadian Puzzle Palace) swapping stories with his NSA sponsor, and an assortment of COMSEC contractors speaking over the internal telephones.

Within the Puzzle Palace, little is considered more sensitive than the names, faces, and titles of its thousands of employees, each of whom is looked on as a potential target for a hostile intelligence service. Congress recognized this as far back as 1959, when it enacted the extraordinary Public Law 86–36, proclaiming, "Nothing in this Act or any other law . . . shall be construed to require the disclosure of the organization or any function of the National Security Agency, or any information with respect to the activities thereof, or the names, titles, salaries, or number of persons employed by such agency."

According to Daniel Schwartz, NSA general counsel, the reason for this overwhelming concern with names is that numerous employees are posted overseas on "covert assignments" and that the "lives or safety" of these persons "might be endangered" by the release of their names.

In spite of these serious concerns, for almost three decades NSA has published a chatty, twenty-page monthly newsletter containing exactly those names, along with their faces, titles, internal organizational codes, and other supposedly "sensitive" information. Although the newsletters today are still unclassified, readers are supposed to burn them after reading. "Newsletter copies received in the mail or taken from Agency buildings should be given special care and should

be destroyed as soon as they have been read," reads the instruction on each issue.

Yet even without the newsletters, obtaining information on NSA employees is easier than converting beets into borscht for any KGB agent worthy of his cloak and dagger. Considerately, the upper crust of the Puzzle Palace, consisting of the two or three hundred most senior officials together with the representatives of the foreign SIGINT organizations, all park side by side in the Agency's prestigious, reserved-space front parking lot. Should Moscow wish a dossier on the NSA's most senior spooks, all an agent need do is drive through the parking lot collecting license numbers and then get the names and addresses from the local Registry of Motor Vehicles.

Inside, the brawny, no-nonsense Marine force has been replaced by beer-bellied civilians of the General Services Administration's Federal Protective Service. They plow dutifully through each exiting briefcase looking for classified documents, but according to one guard, they are forbidden to search one's clothing "unless something is showing." An employee seeking to smuggle out documents can simply place them in a coat pocket to avoid detection.

But of all the weaknesses in NSA's vaunted security, none is more glaring than the way in which the polygraph is used. Unlike the CIA, which uses the polygraph on each and every potential employee, from janitor on up, the NSA exempts all military personnel on the theory that their assignment to the Agency is not voluntary. Since submission to a polygraph examination must be a voluntary act, NSA argues that requiring it of military personnel would violate their rights. The CIA, however, does require it of military employees assigned to the agency, noting that their association with the CIA is voluntary.

The effects of this double standard can be clearly seen in the history of those members of the military seeking to switch to civilian status. During fiscal year 1978, sixty-eight military assignees sought to trade in their uniforms for tweed and double knit. Of that number, approximately 20 percent were eventually judged unfavorable by the Applicant Review Panel. In fully 90 percent of these cases, information obtained through the polygraph contributed to the decision. The results: thirteen people who had been working in the Agency as military employees never would have gotten through the front door as civilians.

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Heading NSA's Office of Security, or M5, as it is known within the Agency, during its first decade was soft-spoken S. Wesley Reynolds, a former FBI agent with a square jaw and straight black hair. A native

of New Jersey and a graduate of St. John's Law School, Reynolds had joined the FBI in 1942 and spent the better part of his early career chasing spies and maintaining liaison with the various military intelligence services.

Unhappy at the prospect of continual transfers, Reynolds turned in his badge in March of 1952 and, after a brief stint outside the government, joined the infant NSA as deputy to Colonel Leslie Wyman, the security director. At the time, internal security consisted of a cabal of undercover informants who would spend most of their time listening for rumors and peering around corners. Every so often an employee would be called down to the security office and never be heard from again. Reynolds soon took over as security chief and abolished the cabal, relying instead on frequent security briefings and a program of security education.

Although Reynolds managed to remove some of the repressiveness from the Office of Security, there was an occasional return to the black bag. In all, four instances of electronic surveillance without a court notice occurred during the late 1950s. Three of these incidents took place at the homes of either current or former employees and included the bugging of a young, black, female employee, who, it was believed, was having contacts with an official of an unfriendly foreign embassy. The fourth instance occurred when the gumshoes planted a bug in the young woman's New York City hotel room during a weekend rendezvous with her embassy friend. In the end, it was determined that the two were interested simply in sex, not in secrets.

Following the double defection in 1960 of two Agency employees, Wes Reynolds was forced to resign.

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Replacing Reynolds was Leonard P. Bienvenu, a lawyer from the Justice Department with a degree from Stanford in Chinese. At Justice, Bienvenu had served directly under Attorney General Robert F. Kennedy as his security officer and also as the executive secretary to the National Security Council's Interdepartmental Committee on Internal Security. Before that, he was with the CIA, and during World War II he served as an intelligence officer in North China and Manchuria.

Unlike his predecessor, Bienvenu managed to survive his own spy scandal and its ensuing shake-up. But as a result, in an effort to strengthen the office's counterintelligence program, he came close to returning the Agency to the undercover, cabal style of security Reynolds had ended ten years earlier.

Under Bienvenu's External Collection Program, begun in October 1963, M5 agents would make periodic visits to the watering holes, restaurants, and other establishments in the vicinity of the Puzzle Palace in order to determine where NSA employees gathered after work, whether they discussed classified information, and whether foreign espionage agents also frequented the same places. When the program was in effect, one would always have to assume that the stranger sitting on the next stool was from M5.

In addition, the program involved encouraging persons working in these establishments — the bartenders, hostesses, and waitresses — to report back to NSA any "suspicious incidents" involving Agency people. Local police were also made aware of the "sensitivity of NSA's mission," should the need for cooperation arise.

Ill-conceived from the start, and lacking adequate personnel to accomplish its objectives, the program died a quiet death somewhere between 1966 and 1967.

M5's External Collection Program, though possibly the most blatant, was far from being the only example of paranoia and overreaction during the 1960s. As worrisome to the Agency as loose-lipped spooks were those few outsiders who dared to write about it. To keep track of this small fraternity, M5 set up a special file called "Nonaffiliates of NSA Who Publish Writings Concerning the Agency."

The sharpest thorn in NSA's side was David Kahn, a reporter for Newsday and an amateur cryptologist. In 1961 the thirty-one-year-old journalist signed a contract with the Macmillan Company to write a book on cryptology, a subject to which the Puzzle Palace felt it controlled the exclusive rights.

After two years of part-time work on the project, Kahn quit his job with the Long Island daily and began devoting all his time to researching and writing on the topic that had fascinated him for twenty years.

At about the same time, however, the NSA became aware of Kahn's forthcoming book — eventually titled *The Codebreakers* — which included a chapter on the Agency, and began a frantic effort to prevent its release, or, if they failed in that, at least to lessen its impact. Innumerable hours of meetings and discussions, involving the highest levels of the Agency, including the director, were spent in an attempt to sandbag the book. Among the possibilities considered were hiring Kahn into the government so that certain criminal statutes would apply if the work was published; purchasing the copyright; undertaking "clandestine service applications" against the author, which apparently meant anything from physical surveillance to a black-bag job;

and conducting a "surreptitious entry" into Kahn's Long Island home.

One by one the options, ranging from the absurd to the downright illegal, were suggested and rejected for one reason or another. At one point the director suggested planting in the press disparaging reviews of the author's work, and such a review was actually drafted. Also suggested and carried out was the placing of Kahn's name on the NSA watch list, enabling the Agency's vacuum cleaner to sweep the airwaves for his phone calls and telegrams. This task was made all the easier when Kahn moved to Paris to take over as a newsdesk editor for the *International Herald Tribune*.

Unilateral action was rejected, however, and the matter was brought before the United States Intelligence Board in early 1964 and assigned to the board's SIGINT Committee, chaired by the NSA director, Air Force Lieutenant General Gordon Blake.

Calling the book "a possibly valuable support to foreign COMSEC authorities," the committee recommended to the board "further low-key actions as possible, but short of legal action, to discourage Mr. Kahn or his prospective publishers" from releasing the book. In addition, the USIB report noted that John A. McCone, chairman of the board and director of the CIA, "would discuss the subject with Mr. Dulles, consider what CIA might be willing to do, and get in touch with Navy, in an effort to prevent publication of the book or at least to review the manuscript."

Just what actions the CIA actually took to halt publication or procure the manuscript are unknown, as is the role played by former CIA director Allen Dulles. What is known, though, is that Macmillan agreed to turn over to the Pentagon two chapters at first, and later the entire manuscript, without the author's permission, just as it had done a quarter of a century earlier with another manuscript — Herbert O. Yardley's Japanese Diplomatic Secrets.

After receiving the entire manuscript on March 4, 1966, the Pentagon shipped it over to NSA, which in turn brought it before the USIB's SIGINT and Security Committees for review. A letter was then sent from the Department of Defense to Lee C. Deighton, Macmillan's chairman of the board, advising him that the department "deplored" the book and that "it would not be in the national interest to publish the book," but if the publishers were going to go ahead with it, the national interest required the deletion of certain specified sections.

By now the Agency realized that there was no way it was going to keep the book out of the bookstores; the best it could hope for was to limit the damage by having Deighton agree to the reduced deletions. But after a month with no reply, it seemed that even this approach was doomed to failure.

There remained one final option. In early July, Richard Helms, newly appointed CIA director and chairman of the USIB, met with Blake's successor as NSA director, Marshall S. Carter, and suggested that the general make a quiet journey to New York and appeal to Deighton personally.

Carter, Helms's former boss, agreed. As the deputy director of the CIA, Pat Carter had been through it all before. That time it was with *The Invisible Government*, a revealing narrative by David Wise and Thomas B. Ross. Several years earlier, when that book was about to come out, he had tried working through the authors themselves and, he felt, had been burned in the end. According to Carter, "We blew it!"

Nevertheless, even this approach involved considerable risk. If the press learned that the chief of the nation's most shadowy spy agency was paying a secret call on one of the nation's largest publishers, the whole effort would explode in NSA's face. Defense Secretary McNamara had this in mind when, while approving the idea, he refused to put anything in writing to the publisher. Carter had originally drafted a letter of introduction for McNamara's signature, stating simply yet mysteriously, "This will serve to introduce Lt. Gen. Marshall S. Carter, USA, who has a matter to discuss with you. I am aware of what Gen. Carter has to say and his remarks have my endorsement and approval." But McNamara "chose not to sign anything" and placed the whole matter back in Carter's lap.

So on July 22, 1966, his stocky frame tucked into a civilian suit, and without the advice of his general counsel, Carter boarded a Friday morning commuter flight from Baltimore to New York's La Guardia Airport for an appointment with Deighton. By now, what had started out as an effort to eliminate several hundred pages, including the entire chapter on NSA, had been reduced to the bare-bones minimum — the deletion of a handful of paragraphs dealing with the most sensitive subject of all: NSA's relationship with its supersecret British partner, GCHQ.

In fact, the subject was considered so sensitive that GCHQ was putting pressure on Macmillan in London. At the request of Brigadier John H. Tiltman, for many years one of GCHQ's most senior cryptologists and a top-ranking liaison officer between the two agencies, GCHQ official Geoffrey Evans interceded with the publisher in London.

Deighton, originally uncertain about the purpose of the meeting,

was surprised to learn of Carter's affiliation with NSA. He called in the book's editor and the company's outside legal counsel, who informed Carter, in essence, "that when a publisher contracts to print a book, he has to get permission of the author to make changes in the manuscript."

"I pointed out," Carter informed a few of his top deputies several days later, "that Kahn's reputation as a cryptologist was suspect; that he was an amateur; that he had never been employed by the Government; that, fortunately, there were enough errors in the book to denigrate the substantive documentation of cryptology in the eyes of the community; that under no circumstances, regardless of how we came out with Kahn, would we give security clearance to the book; that the book by itself, while perhaps it could not be characterized as sensationalism, was sufficiently wrong in sufficient areas to depreciate its validity as the final anthology of cryptology."

Despite the undeserved attack on Kahn, the trio sympathized with Carter's "national security" arguments and agreed to approach the author with the suggested deletions. In addition, at the NSA director's request, "they said that they would not make a memorandum for the record or have anything in their files on the fact of my meeting with them or of what transpired."

To the profound relief of the organizations on both sides of the Atlantic, Kahn, in a transatlantic telephone call, which he took in a small room at the *Tribune* office in Paris, reluctantly agreed to delete the requested material, consisting of the following paragraphs:

Another agency outside the U.S. government with which NSA maintains close contact is the Government Communications Headquarters—the cryptanalytic agency of Great Britain. NSA's United Kingdom Liaison Office exchanges cryptanalyzed material, techniques of solution, and so on, with GCHQ. The two agencies sometimes divide the work of solution, one agency taking one country and the other another, and trade their results to save duplication of effort; but more often both work independently. In addition, they exchange personnel on a temporary basis to broaden the men's cryptologic experience. (British cryptanalysts in NSA are, naturally, kept away from the areas where NSA is probably trying to break British ciphers.) A similar but much smaller liaison program is maintained with Canada and Australia.

Whereas NSA is in the Defense Department, Britain's GCHQ is a department of the Foreign Office. Like NSA, though, it apparently handles the strategic cryptanalysis for both military and diplomatic agencies. GCHQ is located on Priors Road, Cheltenham, in Gloucestershire, about 85 miles west of London, in a cluster of low buildings where it moved from Bletchley Park, apparently shortly after World War II.

Sir Clive Loehnis, a graduate of the Royal Naval colleges and a former naval officer qualified in signal communications, was named director in 1960 at age 58. A member of the Institute of Electrical Engineers, Lochnis served in the Admiralty's Signal Division and then in the Naval Intelligence Division in World War II, entering the Foreign Office in 1045. He had been deputy director since 1952 under Sir Eric Jones, a textile merchant who never went to college and who served in the Royal Air Force Volunteer Reserves, presumably in cryptology, during the war. Jones apparently served in GCHQ starting in 1946, and six years later, aged 45, became director. Named deputy director in 1960 under Sir Clive was Leonard J. Hooper, then 46, a graduate of Oxford with honors in modern history, who was transferred to GCHQ from the Air Ministry in 1942. He served as assistant director from 1952 to 1960. Among GCHQ's best cryptanalysts are Brigadier John H. Tiltman, perhaps England's outstanding expert in the field, who has spent the last few years at NSA, Dr. I. J. (for Irving John) Good, a fellow of the Royal Statistical Society, a brilliant mathematician, and a prolific writer,\* and C. H. O'D. Alexander, one of England's chess champions.

To be sure, neither the NSA nor the GCHQ found any humor in the footnote. However, Kahn may have had the last laugh in spite of his censors. Though the above material was deleted from the text, buried in the notes at the back of the book and overlooked by the censors were the references to the very material that had been deleted. By looking up the references, anyone could acquire almost half of the above information!

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On October 9, 1954, shortly before noon, a carload of FBI agents pulled up to a modest apartment building in Arlington, Virginia, and arrested a gangling, forty-year-old physicist. Less than an hour later Joseph Sidney Petersen, Jr., neatly clad in a double-breasted wool suit and tightly knotted tie, became the first person ever to be arraigned on charges of violating Section 798 of Title 18 of the United States Code — the COMINT statute. By doing so, the recently fired NSA employee managed to spark the young Agency's first full-blown spy scandal.

A native of New Orleans, the tall, myopic Petersen spent his undergraduate years at Loyola University before taking a master's degree

<sup>\*</sup> His papers, on probability, evidence, philosophy of science, and mathematical statistics, are usually rewarding, but sometimes he turns in some with less substance than usual. A wag may have had these in mind when he told an NSA colleague, who had asked why Jack Good had published no papers recently, that "It's an ill Good that Blows no wind."

in science at St. Louis University. In mid-1941, after several years of teaching at Loyola and at Ursuline College in New Orleans, and after successfully passing the Army correspondence course in cryptanalysis, he joined Friedman's SIS and spent the war at Arlington Hall, solving Japanese diplomatic code messages.

Seated next to Petersen at the hall, also working on Japanese systems, was Colonel J. A. Verkuyl, a Dutch liaison officer and a renowned cryptologist. The two rapidly became close friends, and Verkuyl introduced Petersen to another colleague who shared their interest in codes, Giacomo Stuyt, communications officer at the Dutch embassy in Washington.

When the war came to a close, and the United States and the Netherlands ended their cryptologic cooperation, Verkuyl returned home, and Petersen involved himself in training programs for the newly formed Army Security Agency and later the Armed Forces Security Agency. Also, without authorization, he began sending Verkuyl ideas for methods that he thought might be useful in helping his Dutch friend set up a cryptology corps in the Netherlands. Then, strangely, in 1948 he started passing on to Stuyt, who had remained at the embassy after the war, copies of top secret notes and highly classified documents he smuggled out of the agency. Included were details of America's success in breaking the Dutch codes and a 1939 SIS document entitled "Analysis of the Hagelin Cryptograph, Type B-211," which was the device the Netherlands government was using for its diplomatic communications. Exactly why Petersen turned informant for the Dutch — whether out of a twisted sense of friendship or a unilateral desire to protect Holland's code systems, has never been adequately explained. What does appear likely, however, is that Petersen's generosity stretched over a period of almost six years.

Petersen's behavior was brought to the attention of NSA's Office of Security in 1954 almost by accident. During the course of a routine security clearance update, one of the M5 agents mentioned to GENS chief Frank Raven that he had come across some information indicating that Petersen was maintaining a correspondence with a person in Holland named Verkuyl. "Verkuyl!" Raven said. "Verkuyl was head of Dutch COMINT in the U.S. during the war. You better check that out — something stinks."

M5's worst fears were confirmed when investigators, making a surreptitious entry into Petersen's apartment, discovered a large cache of very highly classified documents. There was one bit of luck, however. It was also discovered that whenever Stuyt had returned documents to Petersen after photocopying them, the rounded, American-

type staples had been replaced by squared-off Dutch staples. A massive search was then made throughout the Agency, and many of the other compromised documents were identified.

NSA Director Ralph Canine was notified immediately, and on October 1, 1954, Petersen was dismissed from his \$7700-a-year job. The question then became whether to prosecute, and thus risk revealing to the world the very secrets that the Agency was seeking to protect, or whether to handle the matter quietly. The problem was brought before the United States Intelligence Board, with Allen Dulles arguing that the potential harm in terms of publicity greatly outweighed any possible good. Canine, on the other hand, was strongly in favor of making an example of Petersen. In the end, he was given the green light, with the proviso that only the least sensitive, least damaging items be introduced into evidence.

At the arraignment following his arrest, Petersen pleaded innocent and refused both a preliminary hearing as well as an attorney. Unable to raise the \$25,000 bond, he was marched off to the Alexandria City Jail and ordered held for a federal grand jury session, beginning on December 6.

The hearings that followed were a mixture of both public and private sessions; Federal District Court Judge Albert V. Bryan heard the sensitive testimony in chambers and shifted to open court for the nonsensitive. Although the government had a stack of highly classified documents to base its prosecution on, it followed the rule laid down by the USIB and instead chose several of the most innocuous to go into court with. Among them was a document entitled "Chinese Telegraphic Code SP-D," dated July 1, 1945, and classified as secret. Another was a traffic analysis known as A.F.S.A.230763;KC037, "Routing of North Korean Political Security Traffic as Indicated by Group A2," dated February 20, 1951, and stamped top secret. Also included was the analysis of the Hagelin B-211 Cryptograph.

The choice of documents proved an embarrassment to the prosecutors, however. Charging that the material was "grossly overclassified," David B. Kinney, Petersen's attorney, pointed out that the Chinese code was commercial and easily available to anyone, and also that the Hagelin machine was sixteen years old and could be purchased in Sweden by private buyers.

Nevertheless, Kinney knew that the best hope of salvaging his client from the stiff ten years in jail and \$10,000 fine lay in a compromise plea. On December 22, Petersen pleaded guilty to "knowingly and willfully [using] in a manner prejudicial to the safety and interest of the United States classified information concerning communications

intelligence activities of the United States and foreign governments." In return for Petersen's not forcing the government to disclose confidential information at a public trial, the prosecution dropped the two more serious espionage charges.

But the plea helped little. Calling the documents that Petersen had pilfered "gravely important" and warning that their disclosure "could have led to very, very serious consequences to the security of the United States," Judge Bryan socked Petersen with a seven-year prison sentence. "The pith of this offense is not what the defendant withdrew, but that he withdrew, records from the National Security Agency," the judge concluded.

After the sentencing, Petersen, who had claimed all along that he had merely taken the documents home for use in preparing a training session, was sent to the Federal Medical Center at Springfield, Missouri, for psychiatric observation and was later transferred to a federal prison to serve the remainder of his term.

With Petersen under lock and key, life for the gumshoes of the Office of Security returned to normal. But four years later, in 1958, the mild-mannered physicist was due for release on parole, and his ghost came back to haunt them.

Broke, out of work, and possibly bitter toward the government, Petersen, Agency officials feared, might fall prey to Soviet recruiters. As a precaution, Wes Reynolds ordered another surreptitious entry into Petersen's home in order to plant a listening device that would either confirm or dispel the Agency's fears. Without bothering with the legal requirement of a court order, the security people installed the bug and turned on the tape recorders. As weeks turned into months with no indication of anything bordering on treason, additional break-ins were made to service the battery-operated device. Finally, after three months during which there was not the slightest hint of dishonorable activity, the bug was removed and the Petersen case closed once and for all.

Seated at a long table on a raised stage in front of rows of TV cameras, blinding Klieg lights, and a dozen microphones, two NSA analysts

began fielding questions dealing with NSA's innermost secrets.

Such a nightmare was enough to make even the most fearless security officer break out in a cold sweat. Nevertheless, on September 6, 1960, that nightmare came true in the worst of all possible places: Moscow's gilded House of Journalists.

The drama that led up to the worst scandal in the history of the

NSA had its origins almost a decade earlier and half the earth away, when Bernon F. Mitchell, a trim, brown-haired sailor assigned to the Naval Security Group's listening post in Kamiseya, Japan, first met William H. Martin, newly assigned from an intercept station in Alaska.

Born on March 11, 1929, in San Francisco, Mitchell grew up in the Northern California coastal city of Eureka. The youngest son of a Eureka attorney, Bernon, who in later years would insist that his name be pronounced with the accent on the last syllable, first became interested in mathematics when he spotted a number on the last page of a picture book and inquired if that was the end of the numbers.

In high school the precocious youth was so frustrated by the slow pace of his science class, particularly since his teacher either couldn't or wouldn't delve deep enough into Einstein's relativity theory, that he decided to turn in his books and transfer to another school a good eighty miles away.

Following graduation, Bernon enrolled at the California Institute of Technology, where, after a brief fling at languages, he studied statistics. More bookworm than BMOC, his light reading consisted mainly of tomes on the philosophy of mathematics, interspersed with a sprinkling of Freud. Quiet and shy with girls, he preferred the piano to panty-raids and enjoyed endless hours of debating, especially when the debate offered him an opportunity to expound on his strong agnostic beliefs.

At the end of the first semester of his sophomore year, the C+ student enlisted in the Navy — not to see the world, but to beat a rapidly approaching draft call. Though it may have occurred to Bernon to apply for a student deferment, as most of his classmates had done, his father had been a strict World War II draft board chairman and pressured his son to sign up.

He was assigned to the heavily guarded Kamiseya intercept base, and it was here that Mitchell first met "Ham" Martin, like himself an introspective, thoughtful young man who shared a passion for debating and an intolerance toward religion.

Martin was born on May 27, 1931, in Columbus, Georgia. In 1937 his father, John H., packed up six-year-old Ham and the rest of the family and moved them diagonally across the country to Yakima, Washington, and, eight years later, to Ellensburg, a cow town in the heart of the Kittitas Valley, forty miles to the north. Here the boy caught the attention of Dr. Loretta Miller, a psychology professor at nearby Central Washington University. Miller was impressed by his quick intelligence and set up a series of special tests to determine whether he could skip high school altogether and, instead, enroll in

a special program for gifted students at the University of Chicago.

Although his test scores were high, young Martin's principal believed that he was not yet mature enough to jump right into college, and he worked out another arrangement. Under this plan, Martin studied college subjects during his summers while receiving high school credit, which enabled him to finish three years of high school in two.

After a year at Central Washington, where his interests focused on mathematics, Martin enlisted in the Navy. Because of his math background he was selected for cryptologic duties with the Naval Security Group and was shipped first to Alaska and later to Kamiseya.

Neither Martin nor Mitchell enjoyed Navy life enough to sign up for another hitch, but both remained fascinated by mathematics, and particularly its applications to cryptanalysis, even after their enlistments expired in 1954. Martin stayed in Japan for an extra year as a civilian with the Army Security Agency.

Mitchell returned to Eureka and, after a brief rest, enrolled at Stanford in order to finish his degree in mathematics. The choice of Stanford was a natural one. Both his father and mother were graduates, and his younger brother, Clifford, had spent his undergraduate years there as a star fullback before going on to the law school.

By the time his senior year rolled around, Bernon began thinking of the future. Ever since his Navy days the thought of going to work for the NSA, where mathematicians often work a good five years ahead of the state of the art, had appealed to him; he began the application procedure.

He seemed to be the ideal candidate for the Puzzle Palace: bright, with a degree in math and experience in cryptanalysis. In addition, he had already been granted a tough Naval Security Group cryptologic clearance, which made his chances of passing the NSA clearance hurdle decidedly good.

On February 25, 1957, Mitchell was interviewed on campus by one of the Agency's recruiters, who came away impressed. A week and a half later and several hundred miles to the north, another NSA recruiter began interviewing another candidate with almost identical credentials: William H. Martin, now in his last year as a straight-A math major at the University of Washington, in Seattle. Both apparently had kept in touch after their discharge from the Navy, and on July 8, 1957, the two reported for duty at NSA's Gatehouse 1 as GG-7s.

Despite the fact that they had previously received a final top secret clearance for their work in the Navy, NSA required that they go through the entire clearance process once again. On July 23, Mitchell was called to one of the tiny rooms used for the polygraph interviews, strapped to the machine, and asked a long series of questions. He showed little reaction until the questions began turning to sexual perversion and blackmail. All of a sudden his cooperation ceased, and he refused to answer any further questions.

Eleven days later he was back in the little room, and once again the questions turned to his sex life. This time Mitchell gave in and told his interrogator about certain "sexual experimentations" with dogs and chickens he had done when he was between the ages of thirteen and nineteen.

At this point, the results of the tests, together with a favorable report by the various federal intelligence and law enforcement agencies and the results of Mitchell's Navy background investigation, went to a middle-level evaluator in the Agency's Office of Security. He felt that Mitchell's farm animal "experimentation," when considered in the context of his age at the time, its lack of recurrence, and the favorable reports from the other checks, did not warrant denial of a clearance. Five days later Mitchell was granted an interim security clearance.

Martin received his interim clearance about a week later, after floating through the lie detector and National Agency Check without any problem.

On September 4, 1957, even though NSA had not yet requested renewed background investigations on the two buddies, Bernon F. Mitchell and William H. Martin held up their right hands, took the Security Indoctrination Oath, and were awarded their green badges, which confirmed them into the fraternity and granted them access to cryptologic materials through top secret code word.

Over the next five months the military agencies designated to conduct the background investigations on the two employees (the Air Force Office of Special Investigations for Mitchell and the Office of Naval Intelligence for Martin) rang doorbells and wore out shoe leather. The results, turned over to NSA between January and April of 1958, showed that, though acquaintances had variously rated Martin as an insufferable egotist, subject to flattery, and somewhat irresponsible, there was no reason to block his final clearance. Mitchell fared a bit better. But the gumshoes were to some extent handicapped by NSA's Office of Security rule that kept the results of the polygraph from the personnel department and the investigators conducting the BI. They were unable to take a closer look into Mitchell's adolescent animal fetish.

On Monday morning, January 27, 1958, having spent a number of months at George Washington University and the NSA Training School preparing for their duties, Mitchell and Martin reported to the Office of Research and Development, then under Dr. Solomon Kullback, and began applying their mathematical skills to the art of cryptology.

During this first year neither showed any ill feeling toward his work or the Agency. They took up separate residences in the company town, Laurel, Maryland, and joined the Washington Chess Divan. Mitchell, captain of the NSA chess team, began lifting barbells; Martin chased bar girls.

For close to a decade now, the NSA had been engaged in a secret and bloody air war with the Soviet Union. In April 1950, a Navy patrol bomber with a crew of ten was attacked and destroyed by Soviet fighters while flying over the Baltic. A year and a half later another Navy bomber on a reconnaissance mission off Siberia was shot down, with the loss of all ten on board. That year an Air Force Superfortress on another reconnaissance flight met the same fate over the Sea of Japan. Neither the crew nor any wreckage was ever found.

One of the luckier missions took place on March 15, 1953, when a four-engine American reconnaissance plane flying twenty-five miles off the Soviet coast, a hundred miles northeast of the giant Soviet naval base of Petropavlovsk on the Kamchatka Peninsula, was set on by two MIGs. One of the two opened fire on the American aircraft, which immediately returned fire. Neither of the planes suffered damage, and the ferret made it safely back to Elmendorf Air Force Base in Alaska.

Six months later there was still another attack. This time the ferret was protected by sixteen Sabrejets while it collected signals over the Yellow Sea. Nevertheless, eight MIGs swooped in for an attack; they were successfully repelled. One MIG was reportedly downed. By September 1954, American luck again began running out. On the fourth day of that month a Navy bomber on a reconnaissance flight from Atsugi, Japan, was shot down by two Soviet jets forty miles off the coast of Siberia with the loss of one flier. Only two months later another was shot down near the northern Japanese island of Hokkaido. The eleven crew members managed to bail out, but by the time rescuers arrived, one had died. The men aboard a Navy ferret attacked by Soviet aircraft over the Bering Sea on June 22, 1955, were more fortunate. They managed to crash-land on St. Lawrence Island with no loss of life.

In 1958, little more than two months apart, two American aircrast were shot down after crossing the Soviet border into Armenia. Several months later two more attacks occurred, one over the Baltic and one over the Sea of Japan. Both crew and aircrast returned unharmed.

For the crew and technicians of the ferrets, hopscotching along the Soviet coast, daring the Russian bear to snatch them out of the sky, the term "Cold War" was a serious misnomer.

Mitchell and Martin had known of the spy flights since their Naval Security Group days at Kamiseya in the early 1950s. Now, as NSA analysts working on foreign code problems, they learned of another type of ferret operation, one that troubled them greatly. These were the ELINT missions, in which the aircraft would not only skirt the Soviet borders but actually penetrate them in order to trigger otherwise inactive radar equipment and thus capture their telltale signals for later analysis by the Puzzle Palace.

The two first learned of the highly secret, highly compartmented missions early in 1959. The previous September an Air Force EC-130 had crashed inside Soviet Armenia; six crew members were killed and eleven others declared missing. Five months later, after numerous futile attempts to have the Soviet Union shed more light on the fate of the eleven lost airmen, the State Department released a verbatim transcript of the voices of Soviet MIG pilots in the process of shooting down the unarmed American aircraft. This showed as fraudulent earlier Russian statements to the effect that the plane simply crashed. (A more detailed account is in the next chapter.)

The same day as the State Department released the transcript—a move that top officials of the NSA probably objected to strongly—NSA director John Samford took to the Agency's public address system to suggest that employees refrain from discussing the subject of the EC-130. He apparently hoped this would keep the lid on the operation. The suggestion, however, had the opposite effect; employees throughout the Puzzle Palace began talking among themselves about the possible consequences of the incident. One high official mentioned to Martin that this particular aircraft "had been carrying electronics specialists and special equipment for receiving at close range the signals of Soviet radar transmitters" and that the plane had deliberately crossed the border "in order to get into immediate proximity of Soviet radar installations."

That America engaged in such dangerous and provocative activities shocked both Martin and Mitchell. While not averse to intelligence collection per se, they felt that by sending aircraft across foreign borders and into hostile territory, the American government was foolishly risking igniting a spark that could set off World War III. Even worse was the fact that very few government officials appeared to be aware of the true nature of the missions. Senator Hubert Humphrey's attacks on the Soviet Union for its unprovoked actions against the EC-130 seemed to indicate that Congress also had been kept in the dark about the policy of border penetrations.

Although Martin and Mitchell felt that someone should let Congress in on the operation, they were well aware of the COMINT statute that called for a ten-year prison sentence for anyone revealing just such information. Regardless, they decided to take the chance, and a few weeks later made an appointment with Congressman Wayne Hays, who, they knew, had publicly expressed concern about the State Department's concealing from Congress the pertinent facts of the incident.

After briefly reminding the Ohio Democrat of Senator Humphrey's most recent comments about the EC-130, and telling him of their concern over the failure of the Executive Branch to keep members of Congress correctly informed, the two began describing the aircraft's true mission and their fears that such border crossings were a danger to world peace. Before they were finished, however, the phone rang. Ironically, it was William Macomber, the assistant secretary of state for congressional relations, asking Hays to refrain from further public discussion of the EC-130 incident.

Hays jotted down his visitors' names on the back of his checkbook and told them he thought that perhaps Congress should make an investigation of the matter, "but that what he could do would depend mainly on the reaction of his seniors in Congress." Before leaving, Martin and Mitchell cautioned the representative about the risk they had taken under the COMINT statute and asked him to keep the fact of their visit strictly confidential.

Hays, never accused of being one of Congress' brightest members, briefly mentioned the meeting to Representative Tom Morgan, chairman of the Foreign Affairs Committee, but never spoke of it again because he suspected that the two men had been sent from the CIA to see whether he could keep a secret!

To Mitchell and Martin, rapidly becoming disenchanted with American society as a whole, the lack of even a letter of acknowledgment from the congressman on an issue as important as the illegal ELINT flights was the last straw. As they grew increasingly bitter toward the government, they also began feeling more and more estranged from a society that, they believed, was alien to their own values and beliefs.

To fill the void, they began looking toward the Soviet Union as a society where they would be more accepted, where their intellects would be respected instead of overlooked, where they would not be looked down on for their strong agnostic views, and where such hostile and illegal actions as overflights were not condoned.

It was a view that smacked of gross naïveté; unrealistic and, in large part, illogical. It was a view of Russia they had picked up from the pages of the English-language propaganda magazine Soviet Life. But to them it represented a favorable alternative.

By midsummer 1959 they had made their decision to defect, but they were in no hurry and planned to spend the next year exploring how to go about it. There was another good reason for postponing the flight: because of the high recommendations and letters of praise for the excellence of his work from his boss, R and D chief Kullback, Martin had been awarded a full-time academic scholarship to study for his master's degree in mathematics. It was a significant honor; of all the applicants, Martin was the only one chosen for the full-time program. Later, after winning approval for a second year, he became the first employee to be given a two-year scholarship. He was one of the Puzzle Palace's up-and-comers.

In September 1959 Martin left for the University of Illinois, at Urbana, where he excelled. Earning straight A's in such courses as abstract algebra and mathematical logic, he also had time to earn an A in a course he had begun taking while a student at the University of Washington, one that was not required under his NSA scholarship—Russian.

At Urbana he began associating with members of the Communist Party, and in December he and Mitchell took the first overt step toward their goal: against NSA regulations they flew to Cuba, where, most likely, they got in touch with Soviet officials.

Following the trip, Martin returned to Illinois. Mitchell returned to NSA and proceeded to have an unhappy love affair with a married woman. Later, he secretly sought counseling from Dr. Clarence Schilt, a Bethesda, Maryland, psychiatrist. In Schilt's office at the Silver Spring Medical Center, Mitchell told the doctor that he would like to discuss some of his theories about sex. Because he feared that the NSA might learn of his visits and assume he was a patient, he asked Schilt whether he might simply use him as a sounding board for his ideas.

During the three one-hour meetings in May and June 1960, Mitchell's conversations ranged from his feelings of superiority, to his bisexuality, to his agnosticism. At the conclusion of his third meeting,

Mitchell told Schilt cryptically, "Maybe I'll see you again and maybe I won't."

Also in June his friend Ham returned from Illinois and they began planning their annual leave together. They requested two weeks, from June 24 to July 11, to visit their parents on the West Coast, and within a few days the request was approved, along with permission to extend the visit an additional week, to July 18, if they needed more time. Neither had seen his parents for more than a year, although they both telephoned home quite regularly. On Father's Day, three days before the leave was to begin, each called home once again. Bernon complained to his mother that his woman friend had left for Greece, returning to her husband. "Keep your chin up," Mrs. Mitchell encouraged her son, as she told him to keep up with his visits to the psychiatrist. She unexpectedly triggered an acrimonious conclusion to the conversation when she told Bernon she would pray for him. Instead of feeling comforted, Bernon was enraged: "Why don't you do something for humanity instead of praying?"

The following Wednesday they packed, and on Thursday morning, June 25, they drove the twenty-five miles south to Washington's National Airport, where Bernon and Ham climbed into the silver fuselage of Eastern Airlines flight 307. A few minutes before noon, their seat belts fastened and their adrenaline beginning to race, Bernon F. Mitchell and William H. Martin lifted into the air on the first leg of a journey that had as its final destination, not the West Coast and family, but the Soviet Union and a new way of life. They were about to become the two most important defectors in American history.

Landing in Mexico City after a brief stopover in New Orleans, the pair registered at the Hotel Virreyes and told the clerk that they would be staying about two weeks, but the next morning they abruptly checked out and boarded a Cubana Airlines plane bound for Havana. There they were quietly hustled aboard a Soviet freighter — possibly the 5865-ton *Ilya Mechnikov* or one of the other Russian ships secretly hauling heavy artillery and, later, offensive missiles to Cuba — for their long voyage to their new homeland.

At NSA it was more than a month before they were missed. On July 26, a week and a day after their leave extension had expired, their supervisor tried to reach them at their numbers in Laurel and then at their parents' homes out west. When it seemed that they had simply disappeared, the supervisor contacted Maurice H. Klein, director of personnel, who, in turn, got in touch with security director Wes Reynolds, who was then out at UCLA, supervising security for

an NSA symposium (known as SCAMP). Reynolds returned on the next available plane and immediately began a quiet investigation. A check of the various airline manifests turned up their names on the flight to Mexico and the later flight to Cuba.

Without bothering to seek a warrant, agents from NSA's Office of Security broke into the small shingle house Mitchell rented at 1010 Eighth Street in Laurel. Still parked in front was his 1959 Ford with its Fort Meade parking sticker on the bumper and, inside, a tennis racquet, a chessboard, and a copy of the skin-diving magazine Underwater Adventure. The agents found the house a shambles. One item that intrigued them was a key to a safe deposit box, which was apparently left for them to find. The agents quickly got in touch with the Maryland State Police, who obtained a court order to open the box, and then proceeded to the State Bank of Laurel. There they slipped the key into box number 174, rented under the name of Bernon F. Mitchell, and pulled out a sealed envelope, which bore on the top a request that the contents be made public. It was signed by both Martin and Mitchell.

Whatever hopes the NSA may have had that things were not so bad as they seemed were shattered by the first sentence of the multiple-page statement: "We hope to explain to our relatives, friends, and others who may be interested why we have sought citizenship in the Soviet Union." The writers went on to list, in a well-written, articulate fashion, their principal grievances against the government of their former homeland, especially their disillusionment over America's practice of knowingly making "false and deceptive statements both in defending its own actions and in condemning the actions of other nations" (undoubtedly a veiled reference to the ELINT ferrets) and also over the government's occasional habit of secretly manipulating "money and military supplies in an effort to bring about the overthrow of governments which are felt to be unfriendly to the United States."

Finally, they cited one more example to indicate that "the United States Government is as unscrupulous as it has accused the Soviet Government of being." This involved an apparent NSA-CIA Division D operation, in which "the United States Government gave money to a code clerk working in the Washington embassy of a United States ally for supplying information which assisted in the solving of that ally's coded messages." (Later, in the USSR, they identified that ally as Turkey.)

But why the Soviet Union? Here, they argued, their main values and interests would be shared by a majority of the people, and, consequently, they themselves would be accepted socially. Another reason was their belief that "the talents of women are encouraged and utilized to a much greater extent in the Soviet Union than in the United States." This, they felt, "enriches Soviet society and makes Soviet women more desirable as mates."

But their reasons, as set out in the statement, were as much economic and ideological as social. Under capitalism, they charged, science and technology are used to the disadvantage of the masses, causing needless suffering "by contributing to technological unemployment." Such was not the case in the Soviet Union, argued Martin and Mitchell.

Despite the statement, an embarrassed Pentagon decided to pretend ignorance. According to one individual, "Officials vainly hoped the note would never have to be made public."

On August 1, the Pentagon released the news that two employees of the National Security Agency had failed to return from a vacation and that they were missing and unaccounted for. Five days later, after their trip to Cuba had been discovered and the statement secretly had been retrieved, the department revised its statement, adding, "It must be assumed that there is a likelihood that they have gone behind the Iron Curtain." Incredibly, hoping to hide the magnitude of the loss, which one high Defense Department official confidentially called "possibly the worst security breach since Klaus Fuchs gave the Russians the secret of the atom bomb," the Pentagon went on to say that the information available to the two in their work "could in no way be prejudicial to the security of the United States communications. They had no access to classified documents about American weapons and defense plans." It was a little like saying that Klaus Fuchs did not harm the Western powers because he had had no access to Los Alamos and Harwell.

The statement, in the best Pentagonian double-talk, was designed to deceive. But it infuriated other members of the intelligence community who knew of the farewell note. One high-ranking intelligence official decided to reveal to House Majority Leader John W. McCormack the true facts surrounding the double defection. In a confidential meeting in the congressman's office, the official told the Massachusetts Democrat that the Defense Department's pronouncements were entirely misleading and that the United States had, in fact, sustained one of the worst security breaches in its history.

The day after the meeting, on August 30, McCormack went public with his new information and called on Pennsylvania Democrat Francis E. Walter, chairman of the House Un-American Activities Committee (HUAC), to begin an inquiry into the incident.

"Information furnished me from usually reliable sources," McCormack declared, "leaves no doubt that the two employees have defected to Russia and that they took valuable cryptographic information with them, and its loss is far more serious than any official has publicly admitted." He added that there was a "possibility" that the two employees had been in contact with Soviet agents as early as December, "and could easily have turned over valuable information to the Communists in Mexico months before they turned up missing." To make matters worse, Walter learned that one of the two had requested and received information about the U-2 flight of Francis Gary Powers before he was downed on May 1 and that both men had worked on Soviet communications about the U-2 and other reconnaissance flights.

One week later, McCormack's charges were confirmed in excruciating detail.

As Moscow's large, theaterlike House of Journalists began filling to capacity with newspeople from both the Communist and non-Communist world, Martin and Mitchell took turns reading a long, prepared statement. Again they indicated that their main dissatisfaction concerned a number of dangerous and unethical intelligence-collection activities carried out by their former employer, the NSA. Topping the list were the ferrets. "A single incident or misinterpretation," Martin and Mitchell warned the crowd from behind Cyrillic-lettered name plates, "concerning the purpose of planes involved in these flights could be the cause of war." As an example, they described in detail the flight of the ill-fated EC-130 over Soviet Armenia.

One of the other NSA activities that disenchanted them was the practice "of intercepting and deciphering the secret communications of its own allies." Later, in reply to a question from an *Izvestia* correspondent, Martin identified a few of those countries: "Italy, Turkey, France, Yugoslavia, the United Arab Republic, Indonesia, Uruguay—that's enough to give a general picture, I guess."

At least half of the ninety-minute press conference was spent giving the world its first look inside the Puzzle Palace. The two described everything from the number of manual intercept positions (more than two thousand) to the subdivisions of PROD to NSA's very secret partnership with Britain's GCHQ. Almost as an afterthought they added that NSA regularly read the secret communications of more than forty nations.

At the conclusion of their prepared statement, the two men, dressed neatly in dark Western business suits, agreed to take questions. One correspondent asked for details about how they had reached Moscow. Martin, with a broad grin, declined to answer, saying, "Others may want to use the same route."

After an exhausting hour and a half, Mikhail A. Kharlamov, chief of the press department of the Soviet Foreign Ministry, indicated an end to the questioning, but Martin, obviously enjoying the spotlight, protested and was allowed one more swing at the NSA.

Back in the United States the reaction to the press conference ranged from disbelief to outrage. Emery Mitchell, Bernon's father, said of the defection, "This thing was not voluntary." Martin's father, a vice president of the Schaake Meat Packing Company in Ellensburg and president of the local Chamber of Commerce, shared the elder Mitchell's opinion and said his son was in Moscow "under duress." Eisenhower branded Martin and Mitchell "self-confessed traitors," the Pentagon called them turncoats, and former President Truman said "they ought to be shot."

At least three inquests were begun into the scandal, the most ambitious that of Walter's HUAC, which had as part of its mandate an investigation into NSA's hiring practices. Thirteen months, two thousand man-hours, and sixteen executive session hearings later, Chairman Walter issued the committee's report. It seemed to indicate that the primary reason for the defection was homosexuality. Never once did the committee bother to look into what might have been the deeper reasons for the defection, the political or ideological motivations.

To many in the Puzzle Palace, the thirteen months between the defections and the final report of HUAC had been like waiting for the other shoe to drop. To personnel director Maurice H. Klein, however, it had been more like waiting for an ax to fall.

At forty-eight, Moe Klein had been in the business for close to twenty years, first as a lieutenant during World War II, assigned to Arlington Hall, and later as a major, when he was an assistant chief of the Army Security Agency's Operations Division. In 1949, as the ASA was changing over to the Armed Forces Security Agency, Klein decided to turn in his uniform and join the new organization as a civilian. It was a wise move, since the new agency was going to become largely civilian in personnel, but it also involved submitting a new application and once again filling out innumerable forms, chief among which was the standard Government Employment Application, or Form 57, in bureaucratese.

Klein had been through it all before. In February of 1942 and again in May of that year he had put pen to paper and logged his past. But starting in September, something began to shift. Although

the forms remained basically the same, his past underwent slight changes. His date of birth was switched from March 24 to April 12, 1912, his mother's birthplace from Russia to the United States, his name was transformed from Morris Harry to Maurice Harold, and, more seriously, the graduate of New Jersey Law School became an alumnus of Harvard Law—a school he had attended for one year only. In 1949, hoping to win a place in the new agency, the Army officer filled out another Form 57 and another Personal History Statement, again with the now-familiar misinformation.

After a short wait and with little difficulty, Klein received his appointment and, along with it, his top secret cryptologic clearance, which, to his relief, was based on the background investigation carried out years before for his military clearance. That eliminated the need for a new check.

His luck changed for the worse, however, when President Eisenhower entered the White House and issued an order directing that all civilian government employees occupying sensitive positions be reinvestigated. The resulting BI, in 1955, turned up Klein's wayward information and it was reported to the Agency's security chief, Wes Reynolds. Reynolds interrogated the personnel director but, having known Klein for a number of years, and believing that the errors on the application form had no security significance, took no action.

It was a close call. To make sure there would not be another, Klein allegedly pulled out his personnel file and removed the Form 57 containing the false information and replaced it with a newly prepared form, this one with accurate information.

All went well until Martin and Mitchell decided they wanted to visit Red Square. After the defections, NSA went into a collective state of panic. The House, the Senate, the Pentagon, all began investigations — and they all wanted documents. When HUAC investigator Donald Appell showed up at the main gate to request a number of employment applications, including Form 57s, Klein refused to turn them over. He was then served with a subpoena.

Klein's unusual reaction to the committee's request raised suspicions in the mind of Frank S. Tavenner, Jr., chief investigator for the committee. After all, it was a fairly reasonable request, in light of the committee's mandate to examine the Agency's hiring practices. In fact, the committee had bent over backward in order to know as little as possible about the Agency's actual operations.

Now attention began turning toward Klein himself, and he was requested to transmit his personnel file to a HUAC investigator at the Pentagon. Realizing that the investigator would surely discover that the substituted Form 57 had been printed by the Government Printing Office later than the form's supposed date of execution (June 15, 1949), Klein, according to the committee, pulled another switch. He searched through stacks of his old papers and located a Form 57 dated before June 1949; it was one he apparently had used as a trial sheet, and it still contained some penciled entries, which, the committee concluded, he erased. He then typed in the correct background information, along with the date June 15, 1949.

It was a sloppy job; the erasures quickly caught the eye of investigators, who shipped the document over to the sleuths at the Veterans Administration's Identification and Detection Division. They determined from a photocopy of the document that the typewriter used was an IBM Electromatic with elite type, but without the original of the document, then in the possession of the Department of Defense, they could make no accurate guess about the year the machine had been made.

The committee next sent the results of the investigation to Secretary of Defense Robert McNamara, who called on the FBI to examine Klein's document. The determination was: "The form 57 in question could not have been filed by NSA's director of personnel when he became a civilian employee of the Agency in 1949." In fact, the Pentagon's own probe clearly established that the form had not been filled out until the time Klein's records were requested by the Defense Department for review by HUAC.

When Klein was called before the committee, meeting in executive session, he ignored the evidence and flatly denied the charges that he had done any switching. He explained that the mistakes about his law school career were simply the result of carelessness. As to the other discrepancies, he said that there had long been a question in his family as to whether his mother was born abroad or in this country, and that his birth certificate had been filed by a doctor who gave his name and birth date incorrectly.

Nevertheless, as a result of the investigation, Klein was ousted on November 10, 1961, less than three months before he could have retired with his pension. Commenting on his ordeal, Klein later said: "I am not a Communist. I am not an un-American. I had nothing to do with Martin and Mitchell. My problem," he concluded sadly, "has been a form."

Two days after Klein cleaned out his desk, Reynolds, forty-seven, was also asked to step down. Ostensibly he resigned for violation of the Pentagon's new "standards of conduct" directive, relating to the acceptance of gratuities by military personnel. But in reality,

Reynolds' departure was final restitution for the sins of Martin and Mitchell.

As the months passed, and the reality of Soviet life gradually became clear, the once-fiery passions of the two defectors slowly burned down to disillusionment. During a chance encounter with an American in a Leningrad café two years after his debut in the House of Journalists, Ham Martin confessed that his decision to flee to Russia had been based on a view of Soviet life derived mostly from the English-language Soviet propaganda magazines, USSR and Soviet Life. Like all propaganda journals, Martin said sadly, USSR was apt to paint the situation in somewhat rosy terms.

Though disillusioned, Martin — who had changed his name to Sokolovsky shortly after Truman declared that he and Mitchell should be shot — said he nevertheless intended to make the best of his new situation.

He was now married to a Russian woman whom he met while vacationing at the Black Sea resort of Gagra a few months after the defection. He complained of the Soviet government's failure to keep its promise that they would be free to live wherever they chose. Recently, he said, he had applied for a change of residence to Moscow because of his wife's health. He explained that she was from the south and suffered from asthma in Leningrad's humid climate. Despite the promise, however, the request was turned down.

On the other hand, the Russians did keep their promise to provide him with approximately the same salary that he received at NSA, a handsome 500 rubles (about \$555) a month.

The alumnus of the Puzzle Palace, now a Soviet citizen, was studying for his candidate's degree, which is similar to a Ph.D. Having passed his orals with an average grade, he was working on his dissertation in statistics at the Institute of Mathematics. Yet even here there were reminders of the differences between what was and what is, like libraries with rooms containing material not approved ideologically or politically by the Soviet government and open only to research specialists.

Even more disillusioned is Mitchell. In late 1979 the Leningrad computer specialist began requesting information from the American consulate about the possibility of returning to the United States. The inquiry triggered a State Department review of his status, and in February 1980, almost twenty years after the Klieg lights had been turned on in Moscow's Hall of Journalists, he was formally stripped of his American citizenship. "We found him to have expatriated himself by becoming a Soviet citizen," said one State Department official.

Next, Mitchell applied to the consulate for permission to return

to the United States as an immigrant, but this request was also turned down. The basis for the rejection was the section of the immigration laws barring people affiliated with the Communist Party. Although it could not be determined for certain whether he actually had joined the party, the State Department based its decision on the fact that when he left, "he gave valuable information to the Soviet Government which is part and parcel of the Communist Party." Under such a determination, there is no appeal.

Persistent, Mitchell then applied for a tourist visa, but this too, not surprisingly, was rejected. This left him, apparently, with two choices. Someone in his family could lobby a member of Congress to have a private bill passed, in effect overruling the State Department, or Mitchell could apply to immigrate to a third country, such as Canada. Yet even if he did win a new homeland, there is always the matter of a Soviet exit visa.

But according to his father, who hears from Bernon on the telephone somewhat regularly, the problem is not with the Soviet Union trying to keep him in, but with the American government wanting to keep him out. When asked about his son's second thoughts over the defection, the senior Mitchell said, "I don't think there is any doubt about that — I think he had some very soon."

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In the weeks and months that followed the defection of Martin and Mitchell, the Puzzle Palace began taking on the atmosphere of a lonely outpost under siege. Under increasing pressure from Chairman Walter and his HUAC to cleanse itself of anyone even remotely suspected of "sexual deviancy," the Agency launched a massive purge, quietly ousting "deviates" at the rate of more than one every other week.\* Any man exhibiting the slightest effeminacy became an instant suspect.

With the Office of Security on full alert for limp wrists and telltale lisps, it was little wonder that no one happened to notice a \$100-a-week Army sergeant arriving for work each morning in his baby-blue Jaguar or one of his two late-model Cadillacs. After all, Sergeant Jack E. Dunlap, a womanizing, beer-drinking "family man" with a wife and five children, hardly fitted the pattern the purifiers were looking for.

It was an unfortunate oversight. In their manic search for homosex-

<sup>•</sup> A total of twenty-six individuals were dropped from the rolls of the Agency because of "indications of sexual deviation." (U.S. House of Representatives, Committee on Un-American Activities, Security Practices in the National Security Agency, Report, August 13, 1962, p. 18.)

uals, they completely overlooked Moscow's replacement for Martin and Mitchell.

On paper, Jack Edward Dunlap was the ideal security risk. When first assigned to NSA in April 1958 as a chauffeur for Major General Garrison B. Cloverdale, an assistant director and the Agency's chief of staff, the thirty-year-old sergeant had already accumulated an impressive record. After enlisting in the Army in June 1952, following eight years in the Merchant Marine, Dunlap served heroically with the 36th Infantry in Korea and was awarded the Purple Heart and Bronze Star for "coolness under fire and sincere devotion to duty." Nor did his personal life show anything that would call into question his honesty or loyalty. The tall, lanky native of Bogalusa, Louisiana, had quit high school after three years for a life at sea and had picked up three Good Conduct Medals while in the Army. He could easily have been nominated for "soldier of the year."

Although the exact date is somewhat uncertain, there is no doubt that by June of 1960, as Martin and Mitchell were packing their bags to see the lights of Moscow, Staff Sergeant Jack Dunlap, now elevated to the position of clerk-messenger at the Agency, had become a highly paid employee of the KGB.

At the NSA, just as at the CIA or any other highly sensitive government agency, those employees with the greatest access to secret information are not the department heads or project chiefs, who, under the uniform "need to know" policy, are knowledgeable only about their particular operations. Instead, the system works in such a way that, oftentimes, the lower a person is on the ladder of responsibility, the greater is his or her access to sensitive information. Before the director can send an "eyes only" message to the President, for example, it first has to be typed by a secretary, who then most likely hands it to someone to deliver to the message room, where a teletype operator punches it into a crypto machine. At the White House it is first torn off the machine, handed to another messenger, who probably turns it over to someone else for eventual delivery to the President. By the time it reaches his hands, the message destined for his eyes only has come under the possible scrutiny of at least six other pairs of eyes. With most messages and documents, that number is increased many times.

Dunlap, who acted as a courier for highly classified documents between various parts of the Agency, was now in a position to be of that number.

Although the how of Dunlap's conversion from war hero to traitor may remain forever locked away in some Moscow file cabinet, the when and the why have become much less opaque. He was a political neuter, and his motivation was purely economic. Strapped financially, trying to support a family of seven on his meager Army wages plus whatever he could pick up on the side by pumping gas for a dollar an hour, Dunlap may have initially sold his soul and the NSA's secrets more out of necessity than greed, but it was not long before the order was reversed. In fact, it is the greed that serves to signal the start of his entrepreneurship.

In June 1960, the same man who the month before could barely afford a secondhand station wagon slapped down a cool \$3400 in cash for a thirty-foot cabin cruiser fully equipped with galley and bar. Later, in what became an orgy of high living and fast spending, Dunlap took on a blond mistress; picked up a record-setting hydroplane skimmer; joined the Stoney Creek Racing Boat Club; traded in his station wagon for a Cadillac convertible, a yellow Caddy sedan, and a hot little Jaguar; and began hobnobbing with Maryland's landed gentry at some of the most exclusive resorts. Where months before he had hardly enough money in the bank for a ticket to a boat show, he now could afford to send two of his friends to New York, all expenses paid, to select the finest of Italian handmade speedboat propellers for his racer. In his very first year as NSA's only salesman, he took home a sum estimated to be between \$30,000 and \$40,000 an enormous commission from a normally stingy customer. (A few years ago the Soviets paid a mere \$3000 for a copy of the CIA's top secret KH-11 spy satellite operations manual.)

Any questions about the source of his newfound wealth were quickly turned away with a variety of explanations, depending on his mood and the situation. To some, he said that he owned land on which a precious mineral powder, valuable to the cosmetic industry, had been found. Others he told that he had inherited a large plantation in his home state. To his mistress he simply said he made trips to "the bookkeeper."

But interest in the enlisted man's sudden affluence was only by his friends and neighbors, and not, incredibly, by his employer, even though, because of Martin and Mitchell, security was supposedly at its most vigilant. Even when the Agency, fearful of what he might disclose under sedation, sent an ambulance to transport him to the Fort Meade Army Hospital following a spill during a yacht club regatta, no one bothered to wonder where his sailing money came from.

For almost three full years Jack Dunlap worked as the Soviet Union's resident mole in the nation's supersecret, supersecure agency. His tenure as a spy during the early 1960s, in fact, was slightly longer than John Kennedy's tenure as President of the United States. The

damage to America's SIGINT and COMSEC operations during those years cannot even be estimated, for no one except his KGB handlers will ever know exactly which documents were sold. One Pentagon official later commented that Dunlap's treason was "thirty to forty times as serious as the Mitchell and Martin defections."

Just as it was greed that got him his fancy cars and his high-powered boats, it was greed that caused his downfall. Afraid of being transferred into some nonsensitive, overseas assignment at the end of his tour of duty at the Puzzle Palace, he decided to leave the Army and apply to the Agency as a civilian so that he could continue his highly profitable avocation.

But unfortunately for the sergeant, security screening for civilians was far stricter than for members of the military. As is still the case, NSA waives the polygraph test for members of the armed forces assigned to the Agency, but tests each and every civilian applicant. Twice in March 1963 Dunlap was strapped to the box and admitted to instances of "petty thievery" and "immoral conduct." A few months later, his background investigation started turning up indications of his high living, and on May 23 the Army quickly relieved him of his security clearance and transferred him to a job in a Fort Meade orderly room.

As the investigation continued into June, Dunlap could feel the vice tighten, squeezing out any possibility of hope. He checked into a nearby motel on June 14 and two days later washed down several containers of sleeping pills with a couple of beers. The next morning his friends found him sprawled across his bed, still alive but burning with fever. Rushing him to a hospital, they left behind his two suicide notes — one to his wife, the other to his girl friend — for investigators to find later. Still, there was no mention of espionage in the notes, and the investigators found nothing to charge him with formally, though the investigation now took on added urgency.

Dunlap was released from the hospital on July 2, cured of the overdose but still determined to take his life one way or another, a fact he himself made clear to his Army Security Agency company commander. Nevertheless, no attempts were made to alter his thinking, and on July 20 he once again attempted to end it all, this time with a revolver. But also once again a friend intervened, wrestling the gun away from him, and the attempt failed.

It was a brief reprieve. Two days later, on a warm Monday evening, Dunlap parked his car on a lonely dirt road, strung a length of radiator hose from his exhaust pipe into his right front window, started his engine, and bade a final farewell to the Puzzle Palace. On July 25,

1963, Sergeant First Class Jack Edward Dunlap was buried with full military honors at Arlington National Cemetery.

The story, as well as the investigation, might have ended there had not Dunlap's widow, Diane, come across a cache of highly classified documents in their Glen Burnie home almost a month after her husband's death. On learning of this, the NSA's Office of Security called in the FBI, and the investigation switched from third gear into overdrive. But by now it was too late. The only person who knew the details behind one of America's worst spy scandals was resting six feet beneath a hill overlooking Washington and the Potomac River.

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With Dunlap's death, it was hoped that the spy- and defector-wracked Agency had seen its last scandal. Such, however, was not to be. Incredibly, on the very day that fishermen discovered Dunlap's lifeless body slumped in the front seat of his car near Markey's Creek, another former NSA employee turned up in Moscow and told the world his story on the front page of *Izvestia*.

This time it was Victor Norris Hamilton, a former cryptanalyst assigned to the Agency's codebreaking Production Organization. A naturalized American citizen, Hamilton had come to the United States with his wife, an American whom he had met in Libya, some time during the 1950s and settled in Georgia after changing his name from Hindali. His failure to get a teaching job he attributed to his Arab origins, although he was a graduate of the American University in Beirut. He resigned himself to working as a doorman and bellhop until an American colonel recruited him for the Puzzle Palace.

Starting, on June 13, 1957, as a \$6400-a-year "research analyst," he was placed in the Near East Sector of PROD's ALLO (all other countries) division, which, according to Hamilton, "concerns itself with the U.A.R., Syria, Iraq, Lebanon, Jordan, Saudi Arabia, Yemen, Libya, Morocco, Tunisia, Turkey, Iran, Greece, and Ethiopia." Continued Hamilton in his statement to the Russian newspaper:

The duties of my colleagues in ALLO included the study and breaking of military ciphers of these countries, and also the deciphering of all correspondence reaching their diplomatic representatives in any part of the world . . . NSA reads the ciphers of all these countries by applying cryptanalysis . . .

I knew for a fact that the State Department and Defense Department systematically read, analyzed, and utilized in their own interests the enci-

phered correspondence between the U.A.R. embassies in Europe and the U.A.R. government in Cairo.

For example, I had in my desk all the deciphered communications between Cairo and the U.A.R. embassy in Moscow relating to the visit of the U.A.R. government mission to the USSR in 1958 for the purpose of purchasing petroleum in the Soviet Union. NSA sent all these communications to the State Department, just as it continually sends it the deciphered instructions of the U.A.R. Ministry of Foreign Affairs to its embassy in Washington . . .

It is especially important to note that American authorities take advantage of the fact that the UN headquarters is located on American soil. Their highhandedness has reached the point where the enciphered instructions of the governments of the U.A.R., Iraq, Jordan, Lebanon, Turkey, and Greece to their missions to the UN General Assembly fall into the hands of the State Department before arriving at their proper address.

For about a year and a half things went well for Hamilton at NSA, but then he began showing signs of deep-rooted psychological problems. By February 1959 the Agency pronounced him "mentally ill" but decided to retain him in his position because of his superior proficiency in Arabic. Four months later, however, it regretted that decision, and Hamilton, "approaching a paranoid-schizophrenic break," was forced to resign. According to Hamilton himself, the real reason for his firing was his desire to re-establish contact with relatives in Syria. Whatever the reason, the Arab codebreaker shipped off to Moscow and in so doing inflicted another body blow to the already black-and-blue Agency.

Infested by moles and potential defectors for more than twelve of its first fifteen years, AFSA-NSA managed the distinction of becoming not only the most secretive and most hidden member of America's growing intelligence consortium, but also the most thoroughly penetrated.

## PLATFORMS

## LAND

Rumors began to spread in the tight-knit, northern Maine border town soon after the newcomer arrived. Early November was long past tourist season, and he did not look like a logger.

The mystery deepened when the quiet young man in his mid-twenties suddenly rented a house on the old Gillin farm, near where Houlton's first settlers were buried. Within days, a half-dozen others had joined him; some speculated that they were with the Secret Service.

Then passersby saw thousands of feet of wire being strung, and soon a huge, strange-looking antenna system began taking shape. In less than a week it was up, and a fortnight before the close of World War I, Signal Corps Lieutenant Arthur E. Boeder flipped a switch and brought to life America's first transatlantic eavesdropping station.

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More than sixty years later Lieutenant Boeder's intercept post has long since disappeared, replaced by a parking lot and a Kingdom Hall, where Jehovah's Witnesses come to listen for celestial messages of a different sort.

Although wireless telegrams are no longer snared from the ether above the Gillin farm, land-based American SIGINT platforms stretch from glaciated islands in the Bering Sea to snake-infested swamplands in Virginia, and from Turkish poppy fields to the ragged peaks of the Himalayas.

Before NSA can attack a code or read a message, it first must be able to capture and record the elusive signal. Such is the job of the Central Security Service, an invisible organization virtually unknown beyond Fort Meade.

Made up of the Army Intelligence and Security Command (the old ASA), the Naval Security Group, and the Air Force Security Service, the CSS is the eyes and ears of America's cryptologic empire. They are the soldiers, sailors, Marines, and airmen who sit in long rows with earphones, turning dials, activating tape recorders, and tapping out messages on six-ply, multicolored carbon paper.

Chief of the forty-five-thousand-member CSS is the same person who runs the fifty-thousand-employee Puzzle Palace: the director of NSA. Quietly established by President Nixon in 1972 "to provide a more unified cryptologic organization within the Department of Defense," the CSS was more an accident than the result of a well-thought-out plan.

Conceived in the course of discussions leading up to the 1971 reorganization of the intelligence community, the original idea was to create, in essence, a fourth branch of the armed services. While the members of the "cryptologic" branch would wear the same uniforms as their counterparts in the Army, Navy, Marines, and Air Force, they were to specialize solely in SIGINT and COMSEC areas and would follow an entirely separate chain of command — one leading ultimately to the director of NSA.

As might be expected, however, the military brass sounded battle stations and eventually torpedoed the idea. Out of the rubble appeared the Central Security Service, which, according to one of its drafters, "was a half-assed, last-minute job" to destroy the original fourth-service proposal.

"I was in on the writing of the goddamned thing and I don't know what the hell it is," the former senior intelligence official declared. "Never did understand what it was."

Eventually established by Nixon's executive order, the CSS managed to compound the one problem it was originally designed to correct. Rather than consolidating the cryptologic community, it drove the wedge even deeper by creating a system of "dual staffs." The result was so disastrous that the entire organization was, in effect, scrapped, leaving only the chief (DIRNSA) and deputy chief, a second position filled by NSA's deputy director for Field Management.

Calling the organization a "tower of babel," a one-time assistant to several of the CSS deputy chiefs pointed out how far the confusion reached: "I can assure you that, having been their deputy . . . we talked about that all the time and couldn't figure out what the hell it was "

Even the author of the executive order, then the director of the Office of Management and Budget, James Schlesinger, hoped to avoid the subject when it came up during hearings before a subcommittee

of the House Appropriations Committee. He was pressed by Florida congressman Robert L. F. Sikes, who asked, "Since the elimination of the dual staff of CSS within NSA, leaving only one man in that organization other than the Chief, is there justification for maintaining the fiction of a separate organization?" Schlesinger, who by the time of the hearings was Secretary of Defense, simply demurred, saying, "I think it would be desirable to get General Allen here."

Whether CSS was a fictional organization or not, DIRNSA's real control over the legions of uniformed analysts and intercept operators reposes in the supersecret NSCID No. 6, revised on February 17, 1972:

The Director of the National Security Agency is authorized to issue direct to any operating elements engaged in SIGINT operations such instructions and assignments as are required. All instructions issued by the Director under the authority provided in this paragraph shall be mandatory, subject only to appeal to the Secretary of Defense.

By-passing not only the Joint Chiefs but even the secretaries of the branches of the armed forces, the NSCID devolves incredible authority and responsibility on the NSA director, giving him, at least where SIGINT is concerned, his own Army, Navy, Marines, and Air Force.

Of the three service cryptologic agencies, or SCAs, as they are known, the Army's is the oldest, tracing its roots back to MI-8 in the First World War. Still headquartered in the aging, ramshackle former girls' school, Arlington Hall, the ASA merged in the late 1970s with Army Intelligence to become the U.S. Army Intelligence and Security Command (INSCOM).

Like its sister, the Naval Security Group also remains housed in the stately, red brick former girls' school on Nebraska Avenue that it occupied during World War II.

Youngest of the group, the U.S. Air Force Security Service, recently renamed the U.S. Air Force Electronic Security Command (AFESC), was founded in 1948 and bases its headquarters in a sprawling H-shaped complex at Kelly Air Force Base in San Antonio, Texas. Its main building, Ardisana Hall, was named after the late Brigadier General Bernard Ardisana, who was serving as NSA's assistant deputy director for Operations at the time of his death.

Using platforms ranging from satellites to submarines, the SCAs envelop the globe in an electronic web, the main strands of which are the land-based, antenna-strewn intercept stations, descendants of Houlton's Gillin farm.

Completed two weeks before the Armistice, the Houlton station had a life span of less than a year. Without a war and with censorship dead and buried, the War Department saw little need to continue patrolling the ether, a fact that was particularly upsetting to Herbert O. Yardley, now left to his own devices to acquire the needed messages for his Black Chamber.

The situation changed in 1930, however, when the SIS took over and was given, among other responsibilities, the authority to locate, interpret, and solve "enemy communications" — but only in time of war. The implementing order did authorize the establishment of a radio intercept service and the construction of listening posts, but, again, their purpose during peacetime was to be limited solely to training of personnel and development of equipment.

Toward the end of 1931, construction had begun on an experimental intercept station at Fort Hunt in Battery Cove, Virginia, twenty-five miles southeast of Washington, which concentrated on developing high-speed receivers but also gathered actual intercept material for "practice" by the student cryptanalysts.

By February 1938 the Signal Intelligence Service had six listening posts in full-time operation. In the United States, stations were plucking signals at the Presidio in San Francisco, California; Fort Sam Houston, Texas; and, to take care of traffic between Washington and the major cable companies in New York, Fort Monmouth, New Jersey. Overseas units were set up at Manila in the Philippines and Fort Shafter in Hawaii; and concentrating twenty-four hours a day on the Rome, Berlin, and Tokyo circuits was the monitoring station at Quarry Heights in the Canal Zone.

At the same time, the Navy was fishing for signals from intercept stations located at Cheltenham, Maryland; Winter Harbor, Maine; Bainbridge Island in Puget Sound, Washington, which covered the Tokyo-to-Washington traffic; Oahu in Hawaii; and a blockhouse on Corregidor in the Philippines. Smaller listening posts were located at Guam; Imperial Beach, California; Amagansett, Long Island; and Iupiter, Florida.

Because of the thickening clouds of possible hostilities from the Far East and growing tensions in Europe, the ban on peacetime interception was secretly lifted on March 26, 1938, and the signal snatchers began spinning their dials with unrestrained vigor. After Pearl Harbor, eavesdropping posts began springing up like mushrooms, and by the time the war ended, earphone-clad men and women were operating stations from the Aleutians to Australia, and from India to Africa. Having learned the value of mastery of the airwaves, America's slowly

unifying SIGINT community marked the postwar and Cold War years by turning their antennas toward the menacing Russians and their neighbors to the east. Hardly had the dust begun settling over warravaged Japan when the island nation suddenly switched from being America's chief SIGINT target to its chief SIGINT platform. At Wakkanai on the island of Hokkaido, northernmost city in the empire, the Army Security Agency took over 184 acres and began tuning in the Soviet Union, a mere forty miles farther north. Like tall gray weeds, more ASA antennas began sprouting from a 1229-acre stretch of southern Hokkaido, four miles southwest of Chitose.

At Sakata, on the main island of Honshu, a third intercept post directed its ear 550 miles across the Sea of Japan toward the intriguing geographic confluence of China, Korea, and the Soviet Union. Still another appeared at Kakata on the southern island of Kyushu. The Naval Security Group, meanwhile, concentrated at Kamiseya in the port area of Yokohoma and at Hanza, Sobe, and Futema on Okinawa.

Following the Korean War, NSA pushed closer still to its principal targets with ASA listening stations at Seoul, fifty acres at P'Yong T'Aek, the Red Cloud Compound twelve miles from Uijonabu, and a small base at Toegeuag.

To watch the underbelly of the Russian bear, particularly the missile and space activity at Tyuratam, the Puzzle Palace turned to strategically located Turkey. Selected as the site for the major listening post was the small city of Karamursel, a few miles from the Sea of Marmara and thirty-seven miles southeast of the mosque and minaret skyline of Istanbul. Apparently known as Main Site by the major tenant, the Air Force Security Service, the 697-acre barbed-wire-encircled compound in Asian Turkey was actually manned jointly by the USAFSS and the Naval Security Group.

Shortly after Karamursel sprang to life, other, smaller units began setting up shop on dry mud flats and in poppy fields along the rugged Black Sea coast. Operating at first out of green, antenna-sprouting vans and small windowless blocks of cement, these field stations homed in on Soviet air and naval traffic, commercial communications, and radar signals bearing such peculiar names as Wiff, Token, Mushroom, and Neptune.

Closest to the target was the intercept station at Trabzon, a small coastal village in the shadow of Turkey's Kuzey Anadolu Dağlari Mountain Range and a mere seventy miles from the Russian border. Two hundred miles to the west, on the road to Carsamba, a handful of Air Force SIGINT specialists manned an almost identical station at Samsun. From here, since at least the summer of 1955, America

has kept close watch on the Russian launch site at Kapustin Yar, northwest of the Caspian Sea. By late 1963 or 1964 a longer-range radar had been installed at Diyarbakir, about sixty miles north of Syria, enabling the monitoring of missiles launched from the newer Soviet test center at Tyuratam, east of the Aral Sea. Still another intercept post was established at Sinop on Cape Ince, a jut of land on the Black Sea coast pointing like a stubby finger toward Soviet Georgia and the Caucasus Mountains.

Like cannabis, the NSA eavesdropping stations continued to flourish. One appeared in the capital city of Ankara, and another turned up in the small town of Anadolu Kavak, fourteen miles south of Istanbul, where twenty-three Security Group sailors captured signals in a dilapidated 870-square-foot operations building and lived in "highly rat infested" Quonset huts, according to one official.

In 1975 the Turkish government pulled down the shade on NSA's SIGINT window when the United States embargoed arms to Turkey after its invasion of Cyprus. Beginning in July of that year, all intercept operations were suspended, but the various listening posts continued to be guarded and manned in the hope of a quick resolution to the stand-off. There was none, and in September 1976 the American personnel slowly began pulling out. Four months later the once heavily guarded and highly sensitive operations compound at Karamursel was taken over by Turkish Navy personnel. "The 'OPS' Compound from this day forward," said a Naval Security Group notice to the few remaining Americans, "is no longer a 'CONTROLLED' area. Access to the compound, and movement within, is no longer dependent upon security clearance, nor are escorts required for uncleared personnel."

In 1978 Washington lifted the arms embargo, and Karamursel and the other listening posts seem to have been reclaimed by the American spooks. The price, however, was unlimited access for Turkey to the reams of intercepted communications. This was provided for in a secret "supplementary agreement" to the public Agreement for Cooperation on Defense and Economy, signed on March 29, 1980. Article II of that secret supplement states, in part, "All intelligence information, including raw data, produced at intelligence collection installations in the Republic of Turkey shall be shared by the two Governments in accordance with arrangements determined jointly by the competent technical authorities of the two Governments."

Like Japan, Germany switched from cryptologic worry to cryptologic window, serving as an excellent base for American eavesdropping on European Russia and the Eastern bloc countries. In Bremerhaven,

a port city on the Weser River near the North Sea (and a few years earlier a major German naval base), the Naval Security Group began planting antenna fields and strapping on earphones. The ASA, meanwhile, moved SIGINT equipment into Frankfurt, Augsburg, and Gablingen and the Air Force set up SIGINT stations at Zweibrücken and the Rhein-Main airbase and COMSEC operations at Berlin and Darmstadt.

By the mid-1950s the NSA's supersecret Intercept Deployment Plan (IDP) called for the establishment of a total of 4120 worldwide, round-the-clock intercept positions. The plan was part of NSA's Peacetime Communications Intelligence (COMINT) Radio Intercept Requirements. The numbers on the IDP continued to grow throughout the balance of the decade and into the next. By September of 1965 the ASA alone had 26,233 people scattered through the world in ninety-nine separate units. The high point was reached in 1969, during the height of the war in Vietnam.

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Reduced to its most simple state, an intercept station is little more than a radio receiver — an ultrasophisticated and hypersensitive radio receiver, but nonetheless a receiver. A station can be a vaultlike van on the back of an Army truck or a network of Wullenweber antennas, each capable of holding three football fields, end to end.

Typical of the large, Wullenweber-type stations is the Naval Security Group Activity at Edzell, Scotland. Established in July 1960, when one U.S. Navy officer and eight enlisted cryptologic technicians reported for duty, the listening post grew rapidly and by August of 1976 had accumulated approximately fifteen hundred military and dependents. Located amid the rolling farmland, thick woods, and heather-clad hills of Kincardineshire, in eastern Scotland, the 490-acre station takes its name from the village of Edzell, about three miles away.

The contrast between the green, fertile countryside, where few things grow taller than tomato plants, and the gargantuan Wullenweber is shocking. At first sight the antenna appears to resemble either a frightening prison out of a Kafka-esque nightmare or possibly a leftover set from the latest sci-fi thriller.

Actually, the antenna is more a twentieth-century Stonehenge. The forty-acre Wullenweber site consists of a two-story, boxlike cement operations building surrounded by four concentric circles of poles and wires almost a thousand feet in diameter and from eight feet to over a hundred feet in height.

Also known as a circularly disposed antenna array (CDAA), the system is designed to locate and intercept signals ranging from the low band, such as submarine traffic, to the high band, such as radiotelephone. Because of its omnidirectional design, the system is capable of plucking the signal from the sky regardless of its origin.

The outermost ring, shortest of the four, is the high-band antenna array. Approximately 875 feet in diameter, it consists of 120 equally spaced antenna elements (each resembling a thick, upright tube with a pole sticking out from the top), one for each three degrees of azimuth. Behind it is the taller second circle, the high-band reflector screen, composed of vertical wires suspended from pole-supported horizontal braces. Its purpose is to shield the high-band antenna from signals arriving from any direction other than the one it is monitoring.

Still taller is a third ring, the low-band receiving array, consisting of forty equally spaced "folded monopoles," similar to the first ring of "sleeve monopoles." The innermost of the rings is the giant low-band reflector screen, which looks like an enormous circle of tenstory-high telephone poles with thin copper wires stretched vertically between them and suspended from above.

To locate the source of the transmission, each antenna element is connected to a separate, buried coaxial cable that terminates inside the operations building at the center of the array. Because every cable is electrically the same in length, this permits a device known as a goniometer to determine which receiving element was the first to be struck by an incoming signal. That, in turn, indicates from which direction the signal arrived, since the first receiving element to be struck by a signal is the one nearest the transmitting station.

This procedure, however, will give the intercept operator only a vague idea of where the target transmitter is located, since there most likely will be many possible transmission sites along the route of the signal. Therefore, in order to "fix" the target, numerous Wullenwebers over a wide geographic area are linked together, forming a high-frequency direction-finding net (HFDF, or Huff Duff, as the British used to call it in World War II). The network of HFDF stations simultaneously plots the direction of the same signal. The point at which all lines intersect is the location of the target. Appropriately, the Navy's code name for its HFDF operations is Bullseye.

Thirty miles south of Washington, D.C., Fauquier County, Virginia, serves as a refuge from the steel and cement, the crowds and the crime, of the nation's capital. Along the winding back roads, four-wheeled Mustangs must coexist with four-legged stallions, and property is purchased by the acre rather than the square foot. Small farms

dot the landscape in a gentle patchwork, sending forth from the rich, moist soil corn, soy, and, at a 720-acre secluded estate ten miles east of Warrenton, antennas.

Vint Hill Farms has been growing antennas since 1942. Although expensive to plant, the rhombics and the log periodics, the broadbands and the monopoles, produce some of the choicest SIGINT in the eastern United States. Each day several thousand men and women dressed in green and khaki harvest the crop, process it through expensive machines, and ship it off to a customer in southern Maryland, who will take all the farm can produce.

For forty years Vint Hill Farms and its sister station on the opposite coast, Two Rock Ranch, north of San Francisco, have been the Army Security Agency's principal intercept stations in the continental United States. Among Vint Hill's likely targets is Washington's Embassy Row, a brief forty-five minutes' drive north, and the flood of international U.S. telecommunications constantly flowing in and out of the country. Apparently not even the British are spared in the embassy monitoring, as one former Vint Hill employee secretly confirmed to the House Government Operations Subcommittee on Government Information and Individual Rights. "We had a whole bank of machines," the Vint Hill farmer revealed. "I was one of a whole team of men whose only job was to read and process intercepted British communications."

If Vint Hill is Washington's giant ear, its tympanic membrane is an antenna system known as a rhombic array. Unlike the monstrous Wullenweber, the rhombic is the essence of subtlety. Each antenna consists of a wire several feet off the ground attached to four posts spaced in the shape of a diamond. Each side is roughly ten feet in length, and at one end the wire is connected to a coaxial cable that runs underground to a centrally located operations building. The entire array is made up of a series of between thirty and forty rhombics scattered over several hundred acres.

Whereas the circular Wullenweber, like a fishnet, is designed to pick up any signal regardless of its direction, the rhombic, like an arrow, is designed to intercept very specific, very directional circuits. "We built them with the idea of a particular circuit," recalled Brigadier General W. Preston Corderman, one-time head of the ASA and a pioneer in telecommunications interception, "and when we wanted to intercept a particular circuit we would first find out . . . what directional antenna would get the best results on a theoretical basis and then we would build the antenna to meet that specification."

With a rhombic array, intercept operators sitting in an operations building can continuously monitor dozens of specific circuits, such as long-distance, high-frequency telephone channels, twenty-four hours a day. Also, the array need not be situated in a direct line between the two communicants to pick up a circuit as long as one rhombic is pointing toward one station and another rhombic is pointing toward the other. "Take for instance if it's Rio, Brazil, and Berlin," said Corderman. "Well, you would have to have one going south to get the Rio end and you would have to have one going east to get the Berlin end."

Regardless of rhombic or Wullenweber, however, directional or omnidirectional, the center of the action is inside the windowless box of cement known as the ops building. Like a mutant, the intercept station consists only of an ear and a brain connected by a coaxial auditory nerve.

Typically, as at the Naval Security Group listening post at Kamiseya, the Operations Department is divided into four divisions:

Collection: Made up of those copying messages sent in Morse code and those copying voice, such as telephone.

Processing and Reporting: The codebreakers and analysts, consisting of Surface, Weather, Shipping, Data Processing, and Collection Management Branches.

HFDF or Bullseye: Conducts direction-finding operations and manages a Net Control Branch.

COMSEC: Monitors U.S. military communications to ensure compliance with transmission security regulations.

A similar organizational structure is probably used at the large, joint Air Force-Navy intercept station at Karamursel, southeast of Istanbul. There, according to one former analyst, about twenty-five Morse and five voice operators are set to work against the Soviet tactical and long-range air forces. Sitting in front of their receivers, the collection specialists first check out their assigned targets on the latest TEXTA, a computer-generated digest of up-to-the-minute intelligence collected from nearly every communications facility in the world. Published by NSA and known as the bible of the SIGINT community, it stands for technical extracts of traffic, and gives the intercept operator such vital information as how, what, and to whom each transmitting station communicates. Next, they go over lists of likely locations, frequencies, and the call signals that may be used. Finally, they reach up to the frequency dial and "roll onto" their target.

Close to the top of the list in terms of targets is Soviet Navair, the system by which Russia keeps track of its own military aircraft, and Civair, the radio messages to and from the air control centers at the myriad civilian airports. Information from these intercepts is

correlated with traffic picked up from air-to-ground broadcasts by Russian aircraft and signals from air defense radar — occasionally triggered by a U.S. aircraft on a "provocative" mission.

Aiding the intercept operator, people from the HFDF Division are also busily tracking the Russian fliers through triangulation plots in cooperation with other Net stations.

Several desks away, other SIGINT specialists keep close watch over Soviet submarine activity, hoping to catch the split-second "burst" as a sub radios a supercompressed message back to base. Once the burst is recorded on several large tape drops, the tape will be slowed down, the signal demodulated, analyzed, and perhaps broken.

Another high-priority target for the signal chasers at Karamursel is the Soviet space program. On April 23, 1967, a number of analysts were routinely copying the return of Soyuz 1, bringing Soviet cosmonaut Vladimir Komarov back from twenty-six hours in space, when problems suddenly developed on re-entry. Recalled one of the intercept operators:

They couldn't get the chute that slowed his craft down in re-entry to work. They knew what the problem was for about two hours . . . and were fighting to correct it. It was all in Russian, of course, but we taped it and listened to it a couple of times afterward. Kosygin called him personally. They had a video-phone conversation. Kosygin was crying. He told him he was a hero and that he had made the greatest achievement in Russian history, that they were proud, and that he'd be remembered. The guy's wife got on too. They talked for a while. He told her how to handle their affairs and what to do with the kids. It was pretty awful. Toward the last few minutes he began falling apart, saying, "I don't want to die, you've got to do something." Then there was just a scream as he died. I guess he was incinerated.

As is true of any large organization with numerous branch offices scattered hither and yon, the Puzzle Palace must deal with the nagging problems of duplication of effort, interservice rivalry, and breakdowns of communication. To help cure these organizational headaches and provide central coordination to the listening posts in the hinterlands, the Agency established a hierarchy of regional and local offices and combined centers for intercept processing and analysis.

The Pacific regional office, Headquarters NSAPAC, is in Hawaii. On June 1, 1965, as the war in Vietnam became increasingly explosive, ribbon-cutting ceremonies were held to inaugurate the opening of the NSAPAC Operations Group (NOG), a sort of Pacific command post for the Agency. The activity, which was to coordinate all SIGINT in the Pacific, was housed in the Commander-in-Chief, Pacific

(CINCPAC), Command Center at Camp Smith, north of Pearl Harbor. Chief of NSAPAC during the hottest part of the Vietnam War, from June 1968 until June 1971, was Rear Admiral Lester R. Schulz, the former NSA assistant director for the National Cryptologic Staff.

Subordinate to HQ/NSAPAC are a number of local offices, such as that of the NSAPAC Representative to CINCPAC, who at one time was Robert E. Drake, later NSA's deputy director during the late 1970s. Another is the office of the NSAPAC Representative, Taiwan. One of the most important posts is the NSAPAC Representative, Japan, with headquarters at heavily protected Camp Fuchinobe, a 592-acre site a dozen miles west of Tokyo.

In addition to its NSA offices, the Agency has a large and very secret codebreaking-and-analysis center on Okinawa. Concerned about the possible repetition of effort by the three military SIGINT organizations, Secretary of Defense Neil H. McElroy in January 1957 established a special ad hoc committee to study the matter of greater efficiency and economy in national SIGINT. Among the recommendations submitted by the committee a year later was the establishment of a consolidated triservice processing center, to be located at Sobe, Okinawa. Formally opened in 1961, the Joint Sobe Processing Center (JSPC) is manned by personnel from the NSA, the Army Security Agency, the Naval Security Group, and the Air Force Security Service. The facility permits the sharing of expensive computers for traffic analysis and other cryptologic activities that support the theater commander in the Pacific.

A similar facility was built several years later to consolidate the U.S. SIGINT effort throughout Europe. Located on 21,000 square feet of floor space in the I. G. Farben building in Frankfurt, West Germany, the same building in which the Headquarters NSA Europe is located, the Joint Operations Support Activity Frankfurt (JOSAF) enabled the Agency to close down the listening post at Zweibrücken.

A secret NSA underground facility at Kunia, Hawaii, is currently undergoing more than \$2 million worth of alterations to house a third triservice processing operation. This may replace Okinawa's JSPC when the island reverts to full Japanese control.

The establishment of these joint centers reflects the long-standing belief that codebreaking and other processing functions should be carried out at the most forward locations at which the required speed can be achieved. Processing that can be done effectively within twenty-four hours after intercept is handled at the point of intercept within the theater, such as at the Navy intercept station at Kamiseya. The more difficult traffic, that which can be successfully attacked within

forty-eight hours of intercept, is referred to the joint processing centers, like the JSPC at Sobe. The remainder is attacked at Fort Meade.

Of all the intercept stations built during the 1950s' boom, the ultimate in both ambition and failure was in the remote Allegheny hollow of Sugar Grove, West Virginia, population forty-two. Nestled deep in the wooded and mountainous South Fork Valley of Pendleton County, Sugar Grove sits at the heart of one of the most extraordinary natural preserves in America, a refuge not for vanishing wildlife or eroding landscape, but for something even more endangered: quiet.

Enacted into law by the West Virginia State Legislature on August 9, 1956, the Radio Astronomy Zoning Act provides for a one-hundred-square-mile National Radio Quiet Zone, providing a sanctuary from the electromagnetic interference normally found in abundance in more urban areas. The closest city of any size, Harrisonburg, Virginia, with a population of about seventeen thousand, is separated by mountain ranges that shield Sugar Grove from any interference. There are no high-powered radio or television stations, and only a few electric-power transmission lines crisscross the rugged landscape. Nor are the skies above frequented by commercial airlines, which eliminates interfering radar signals. Even heavy trucks and buses are prohibited; they are confined to the Shenandoah Valley on the opposite side of the mountains.

To a handful of officials at NSA, the Naval Security Group, and the Naval Research Laboratory, the static-free site seemed perfect for translating into reality a theory that even today would boggle the mind. Planned for the backwoods of Sugar Grove was the world's biggest bug.

For years scientists and engineers in NSA's Office of Research and Development toyed with the idea, scratching equations and formulas on the long green chalk-boards that lined their offices. If a radio telescope could be built large enough, they hypothesized, they should be able to turn the moon into a sort of SIGINT relay station by listening to Soviet radio communications and radar signals reflected from its surface.

By 1959 the Puzzle Palace and Office of Naval Research had sold the idea to enough moon-struck congressmen, chagrined by the Russian space coup with Sputnik 1, and were awarded a hefty \$60 million for the project. Nevertheless, one year later, with barely the foundation laid, they were back behind the same witness table pleading for an additional authorization of almost \$18 million.

Almost from the start the cost overruns were as staggering as the project itself. What was being built was the largest movable structure

that had ever been created. Thirty thousand tons of steel welded into the shape of a dish sixty-six stories tall and six hundred feet in diameter — wide enough to hold two football fields. The giant ear would rest on mammoth drives capable of swinging it up, down, sideways, and 360 degrees around a fifteen-hundred-foot track so that it could be aimed at any point above the horizon with pinpoint accuracy.

The mathematical calculations required for the project were, in the words of one engineer, "almost beyond comprehension." As many as thirteen components had to be joined together at one point, which demanded up to ninety-two separate formulas to be worked out simultaneously, a feat that would have taxed the capability of even the largest commercial computer then available.

Despite the fact that an IBM 704 computer had been working on the design specifications for more than half a year, by 1961 the construction still had advanced no farther than the rotating tracks and pintle bearings. So once again the engineers went back to the Congress and pulled out their pocket linings. But by now Congress was beginning to realize just how much it had been oversold on the moontap, and put a ceiling of \$135 million on the project, a sum that only a few months later was determined by the Navy to be in the neighborhood of \$65 million short of what was needed.

By the summer of 1962, Sugar Grove had become a solid steel albatross, and the administration began taking a closer look at the project. In a memo to President Kennedy, Science Adviser Jerome B. Wiesner pointed to his long involvement with the project and noted that both he and CIA director John McCone felt that "from the intelligence point of view it is a very marginal project." Telling Kennedy that he expected Secretary of Defense McNamara to cancel the operation in a very short time, the future president of MIT indicated his agreement: "In view of the sad history of the project, I believe that this is the proper thing to do."\*

Eventually it was decided that Sugar Grove would be the ideal replacement facility for the Naval Radio Station at Cheltenham, Maryland. The Quiet Zone, it was felt, would be an excellent location for the Navy's receiving antennas, which could be connected by underground cable to the transmitting station left at Cheltenham. The switch was approved on May 10, 1969.

Since its beginnings in the mid-1950s, the secrecy surrounding

<sup>\*</sup> Dr. Wiesner also noted, "This project was started a decade or so ago by intelligence specialists in the Navy who proposed listening to Soviet radio communications and radar by means of reflections from the moon."

Sugar Grove has been intense. The cover story throughout the entire life of the project was that the six-hundred-foot dish was purely for research and radio astronomy, permitting scientists "to tune in on radio signals as far as 38 billion light years away," according to the local newspaper. The timing was appropriate; Sir Bernard Lovell had completed the world's first radiotelescope just the year before. This was the giant 250-foot Mark I at Jodrell Bank.

Even today, twenty years after the enormous steel ear received its death notice, the blanket of secrecy around the project remains as tightly drawn as ever. The reason is that Sugar Grove continues to be one of the NSA's most important — and secret — listening posts.

When a series of documents indicating the antenna's original eavesdropping requirement was uncovered in an unclassified file in the Naval Operational Archives, the material was immediately summoned back to NSA and stamped SECRET. As justification, the Agency cited the COMINT statute (18 U.S.C. 798), the law allowing NSA to withhold any information regarding its activities and personnel (Public Law 86–36), and the law protecting intelligence sources and methods (50 U.S.C. 403[d][3]).

What the documents showed was that after the original Big Ear had been abandoned and the site turned into a naval receiving facility, the Naval Research Laboratory (NRL), the organization that originally helped plan and build the antenna for the NSA, continued to operate on the station — a station that now included a huge and unique double set of Wullenwebers. More significantly, the NRL continued to operate a sixty-foot microwave receiving antenna built in 1957 as a prototype for the original Big Ear.

On the first day of July 1975, the Naval Security Group officially relieved the NRL and took over a two-story underground operations building known as the UBG. Since then, the now-classified documents show, top NSA officials have been making frequent trips to the isolated compound. On March 23, 1978, for example, Deputy Director Benson K. Buffham led a group on an inspection tour of the UBG, which was scheduled to house a highly secret new project. Other groups followed in May, September, and November.

The secret visits continued throughout much of 1979. On September 11, Air Force Major General Howard M. Estes, Jr., NSA's assistant director for Plans and Resources, arrived with a group to inspect construction for the new projects. Two months earlier the facility was paid a very unusual visit by Michael J. O'Neil, chief counsel for the House Intelligence Committee.

What was quietly being constructed in the secluded forests near

Sugar Grove was a spectacular array of satellite microwave receiving antennas. They ranged in size from thirty feet across to an enormous 150-foot dish, one of the largest ever built and constructed partly from materials left over from the Big Ear project. Also added was the Raymond E. Linn Operations Building, or LOB, a windowless, white cinder-block structure named after a chief petty officer in the Naval Security Group who was killed when the Israeli Navy torpedoed the U.S.S. Liberty, an NSA SIGINT ship.\*

Did the Puzzle Palace discover a new, more economical way to tune in on the Russians from the backwoods of West Virginia? Or are its targets closer to home? The answer may be found in the title of one of the key NSA visitors to Sugar Grove: chief of G Group, the official whose organization is responsible for eavesdropping on all communications to and from the United States. Nowhere among the visitors, however, was the chief of A Group, the Russian expert, or, for that matter, any other group chief.

Nor is that the only indication of what Sugar Grove's true mission is.

Less than sixty miles from Sugar Grove, in Etam, West Virginia, three other large, dish-shaped microwave antennas are surrounded by forest. In contrast to Sugar Grove, however, there is nothing secret about these satellite antennas. They belong to the Communications Satellite Corporation (COMSAT) and serve as the doorway through which passes more than half of the commercial, international satellite communications entering and leaving the United States each day.†

Flowing in and out of Etam's 62-, 97-, and 105-foot dishes at the speed of light are thousands of telephone calls, telegrams, and telex messages arriving from or destined for 134 countries around the globe. Over many of Etam's 4943 half-circuits (each half-circuit is a two-way communications link between the earth station and an INTELSAT satellite) computers talk business with other computers at the rate of seventy thousand words a minute. The four earth stations — there is a sister station at Andover, Maine, and there are two stations on the West Coast — control nearly all nongovernmental

<sup>\*</sup> Chief Linn was scheduled to retire in June 1967, but having spent thirty years in the Navy, he persuaded officials to allow him "just one more trip, one more liberty port." It was his last voyage. (James M. Ennes, Jr., Assault on the Liberty [New York: Random House, 1979], p. 18.)

<sup>†</sup> Of COMSAT's 9663 half-circuits in the continental United States, Etam handles 4943. (COMSAT Guide to the INTELSAT, MARISAT, and COMSTAR Satellite Systems, Office of Corporate Affairs, Communications Satellite Corporation, Washington, D.C., page 27.)

international satellite communications entering and leaving the continental United States.

From their secret site five miles north of Sugar Grove, the NSA dishes should be able to pick up every earthbound whisper destined for Etam, as well as every pulse sent skyward. According to James Warren, general manager of the Etam station, the busiest earth station in the world, all that is needed to intercept the COMSAT signals is an equivalent-size satellite antenna. "The trick, of course," said Warren, "would be to hide a 105-foot dish antenna."

In fact, NSA has done just that. Completed early in 1980 was a shining, white 105-foot dish antenna complementing the previously constructed 150-, 60-, and 30-foot dishes. Yet despite the size of the massive antennas, what is probably NSA's main domestic vacuum cleaner is extremely well hidden. Not even the hint of an antenna is visible from the lonely two-lane public road that passes about a mile away. Only by driving down the restricted and guarded government access road leading to the site can one see the valley of antennas. Even aircraft are forbidden to overfly the area.

Technically, the whole operation should be child's play for the Puzzle Palace. "Interception of microwave signals can be done rather easily," concluded a study done by the Federal Communications Commission several years ago, "since the technical parameters of the microwave stations (e.g., station location, frequencies, directional azimuths, etc.) and the nature of the associated multiplex equipment are public information." The only requirement, the report pointed out, was "appropriate technical know-how and financing," hardly problems for the wealthiest of American spy agencies, which boasts that "the Agency's mission requires that our professionals strive to stay as much as five years ahead of what is considered the state of the art outside NSA." In addition, one could hardly find someone with more "technical know-how" than William O. Baker, head of AT&T's Bell Laboratories and at the same time a member — perhaps the most important member — of the very secret NSA Scientific Advisory Board. After all, it was Bell Labs under Baker that, to a great extent, developed and perfected the very system that the NSA hoped to penetrate. And according to Dr. Solomon Kullback, the former head of research and development at NSA, "the actual interception of microwave communications has never been a problem." The problem, he said, was in developing a system capable of recording the massive amounts of information.

Finally, the FCC study went on to state that microwave eavesdropping is undetectable "unless the receiving antenna . . . is spotted."

It also noted that of the possible locations for intercepting international microwave traffic, the ideal spot would be near the commercial earth terminal, and that it would require an antenna of some thirty feet in diameter, the size of Sugar Grove's smallest dish.

Since COMSAT's Etam earth station represents only one (the largest) of the four satellite "gateways" into the continental United States, it would seem logical that NSA would attempt to cover the other three earth terminals as well.

The Naval Security Group Activity at Winter Harbor, Maine, for example, buried deep in Acadia National Park, sixty miles from Bangor, would likely serve as an excellent platform from which to intercept signals to and from COMSAT's Andover station, 125 miles to the west.

On the West Coast, COMSAT's northern earth station is located in Brewster, on the Columbia River halfway between Seattle and Spokane in north-central Washington. Curiously, in the early 1970s the NSA opened a very secret installation a hundred miles to the south on an isolated tract of land in the Army's enormous 261,057-acre Yakima Firing Center. So secret is the \$3,564,000 installation that few people even in the NSA are aware of its existence.\* Nor, for that matter, do the local residents have any notion of this facility. In the city of Yakima neither the Chamber of Commerce nor Jim McNickey, city editor of the local Yakima Herald, had ever heard of such an installation or its cover name, the Yakima Research Station. Only at the post office had the research station ever come to be known. "They're a real top secret-like place," said one postal employee. "They bring in their own mail to us and pick it up and stuff they don't even have their own mail go out with the other Firing Center mail. They are on their grounds but they're, apparently, a separate entity. We really don't know much about them except that they're out there."

One person who does know much about them is Tom Land, the NSA chief of station. When asked what agency his research station was attached to, he replied that it was "sensitive information" and that his station was engaged in "classified research." After more prodding, however, Land eventually admitted that the station was, in fact, attached to the NSA, but added, "I'm not used to talking on a open phone like this" and "It's not the kind of thing you would go around talking about, especially from here."

<sup>\*</sup> At approximately the same time as the Yakima Research Station was built, Congress appropriated this amount to NSA for "Classified location: Operational facilities" within the United States. (U.S. House of Representatives, Committee on Appropriations, Military Construction Appropriations, Hearings for 1970, Part 3, 91st Cong., 1st Sess., p. 577.)

Finally, there is COMSAT's fourth earth station, at Jamesburg, California, a tiny village on the edge of Monterey's Los Padres National Forest in central California. A possible location for an NSA tap is the Army Security Agency intercept station at Two Rock Ranch, 130 miles to the north.

But what if the message happens to go by undersea cable? At first blush this would seem to complicate the process of interception, since there are six transatlantic lines, and tapping a cable is a far greater technological feat than simply snatching it from the air. A submarine would have to lay a long cable right alongside the commercial cable and then pick up the traffic by induction. The real problem, however, comes in trying to relay the information back to the NSA — or to Moscow, depending on the tappers.

Addressing the problem several years ago before a Federal Communications Commission hearing was J. Randolph MacPherson, a telecommunications expert and chief trial attorney for the Defense Communications Agency:

To intercept a cable transmission requires physical access to the cable. This is something which is much more difficult than physical access to a satellite transmission. To intercept a cable also requires maintenance of the hardware which performs the interception. This means that whoever is intercepting the cable has to take care of the means by which he is doing it. This is something that is also not present in satellite transmissions because one need not be up in space monitoring any particular pieces of equipment to perform that interception.

Thirdly, to intercept a cable, especially in the case of an undersea cable, assuming you've accomplished the first two goals, you have to transmit it to where you want to listen to what you're intercepting.

This is something that is not necessary with the interception of a satellite transmission because it can be performed, as I stated, given the right equipment, very simply in your backyard or on a boat or any place else where you have access to that satellite transmission line.

It is also much easier to detect interception of cable facilities. This is something that technically can be performed. It is very difficult if not impossible to detect the interception of a satellite transmission.

The net result of this is that it is a much more risky undertaking and much less attractive for anyone to try and intercept cable transmissions as opposed to satellite transmissions.

Nevertheless, even cable has its Achilles' heel. There were six submarine cables resting on the Atlantic seabed, but TATs 1 and 2 (Trans Atlantic Telephone cable), out of Nova Scotia, consisted of a scant 165 circuits, so they were retired in 1978. TATs 3 and 4, both of which stretch from Tuckerton, New Jersey, to England and France,

also have a small capacity (350 voice channels) and handle little more than 6.5 percent of the cable traffic. Handling more than 90 percent of all transatlantic undersea communications are TATs 5 and 6, with a combined capacity of 4845 circuits. Communications from much of Europe and even the Middle East funnel into TAT 5 in Spain and TAT 6 in France, where they begin a thirty-four-hundred-mile undersea transit to a building in Green Hill, Rhode Island, buried almost three stories underground, wrapped in five feet of concrete, and sealed with a ten-ton vault door capable of withstanding pressures up to twenty-five pounds per square inch.

At the cable head the signals are demultiplexed, and most are converted to microwaves, shot out of their heavily protected cocoon up a tower, and beamed thirty miles away to an AT&T Long Lines relay station in Montville, Connecticut. During the course of that brief millisecond of travel, the communications are just as susceptible as the signals to and from Etam.

Those not transmitted out of Green Hill via microwave go by buried cable to Cheshire, Connecticut, seventy miles away, and there most enter the terrestrial microwave network.

Thus, by having four strategically placed satellite antenna fields located near the COMSAT earth terminals and several average microwave receiving horns stuck on a rooftop or hanging on the side of an obscure tower near the various cable heads, the NSA should be able to monitor continuously nearly every international telephone conversation or message to or from anyone in the United States. Such a power could have been fantasized only by Orwell — and never dreamed of by Hoover.

Because of the limited number of gateways, the international communications network will probably always be easier to monitor than the massively large and complex domestic network. But the increasing use of microwaves and the corresponding decrease in land lines throughout the United States are gradually closing the gap. In addition, a rapidly growing domestic satellite system may eventually permit domestic eavesdropping on a scale almost unimaginable. In 1981 COMSAT orbited the fourth of its domestic COMSTAR satellites, which it leases to AT&T. This brought to fifty-four thousand the number of simultaneous domestic telephone conversations that can be beamed down to COMSAT's seven COMSTAR earth stations.

The ease with which domestic microwave channels can be intercepted was made graphically clear in an extraordinary how-to manual quietly produced several years ago by the MITRE Corporation at the request of the Ford White House:

## 4.2.1. Microwave Radio Signal Acquisition

A possible strategy for intercepting the calls on the radio route is as follows:

- 1. Locate the microwave repeater sites for the route of interest.
- 2. Acquire the use of a small farm along the route with sufficient line-of-sight access to the radiated energy.
- 3. Set up radio interception equipment including a sufficiently large antenna . . . in a barn to avoid being observed.
- 4. Place call between accomplices and put tracer signals on the circuit.
- 5. Scan the microwave channels to find tracer signals.
- 6. Telephone accomplice from farm either when tracer is found or no tracer tone can be found (accomplice must have second main station telephone to receive such a call) and have him end call and place a new call with the tracer tone.
- 7. Begin monitoring the channels on which tracer signals were found.
- 8. Continue search for trunk circuits until the portion of the trunk group carried by the microwave route has been approximately identified.
- g. Terminate use of tracer calls and continue to monitor the circuits for desired information.
- 10. Program micro-computer equipped with inband signaling decode device to automatically scan the groups of interest. In the event either of the two targeted telephones is dialed, the scanning device will either signal the interceptor to listen, or automatically connect a recorder to the conversation.
- 11. Recorded conversations can either be analyzed for relevant communications in situ or transported to an information extraction facility.

So common are the small, gray, cone-shaped microwave antennas that dot city rooftops and shoot skyward from hills and fields, they have become as unseen as crocuses in springtime. Nevertheless, it is this network of inverted tops, small saucer-shaped dishes, and cornucopia-like antennas that has transformed our domestic telecommunications system from the wire to the wavelength.

Spaced between twenty-five and thirty miles apart and in line of sight of each other, each of the antennas can transmit, receive, and relay up to 61,800 simultaneous calls with the addition of the new single sideband equipment. It is over such broadband microwave links, which blanket the country like an electronic net, that the vast majority of long-distance telephone communications travel.

Because this net is so large, however, and the variables so great, it is likely that the NSA confines its domestic monitoring to the foreign diplomatic traffic flowing between Washington and New York. This

may be done with large microwave receivers concealed in white golf ball-like radomes high atop the Agency's nine-story Headquarters Building and seven-story Friendship Annex (FANX III), both ideally located directly in the path of the microwave links.

Others, though, see a more sinister domestic microwave "tap" implanted by the NSA. David L. Watters, a telecommunications engineer once attached to the CIA's communications research and development branch, pulls out a microwave routing map of the greater Washington area and jabs his index finger at a small circle with several lines entering it and the letters RCV. Just below the circle are three more letters: NSA. "There's your smoking pistol right here," Watters indicates with a second jab.

The circle is actually a large microwave tower with nine cones pointing in five directions. It is located several hundred yards behind NSA's main Operations Building at Fort Meade. What makes the tower suspect, says Watters, is that it is tied into the local telephone company circuits, which are interconnected with the nationwide microwave telephone system owned by AT&T. While this in itself, he indicates, may have little significance, the key is in the letters RCV, which stand for Receive Only Station.

"The only thing that you can [infer] from that is that it is an extremely broadbanded capability that they have," Watters says in a soft Georgia accent. "They would not need to have a receive only circuit capability to the extent that this provides if they were simply receiving messages over Western Union or telex or whatever. This implies that they are scanning, continuously, thousands of circuits all over the country."

The telecommunications specialist, who had at one time worked for AT&T's engineering arm, Western Electric, made the same point when he was a witness, on February 8, 1978, before the Senate Intelligence Committee. "It is understandable that radio and television, weather and press wire communications services, would require only one-way circuits," he said. "It is not understandable that the National Security Agency would require thousands of times the circuit capacity of the world's press services combined, AP, UPI, Reuters, et cetera, except that these one-way circuits are thousands of remote wiretaps!"

Another indication of NSA's "broadband sweeping of multicircuited domestic telecommunications trunk lines," Watters told the senators, lies in the Agency's request for an amendment to the wiretap law that would permit NSA to engage in warrantless wiretapping "for the sole purpose of determining the capability of equipment" when such "test period shall be limited . . . to . . . ninety days." Continuing, he warned:

Let there be no misunderstanding here. There is only one category of wiretapping equipment or system which requires up to ninety days for test and adjustment, and that system is broadband electronic eavesdropping equipment, the vacuum-cleaner approach to intelligence gathering, the general search of microwave trunk lines. I make this assertion on the strength of actual experience in the electronic intelligence trade and on the strength of over twenty-five years' experience in the telecommunications profession. An ordinary, single-line wire tap requires only five minutes to adjust and test.

Although some microwave testing may be done by engineers in NSA research and development spaces in the floors below the big white golf ball at FANX, most of it, apparently, is conducted in the utmost secrecy at a mosquito-filled swamp on Kent Island in the Chesapeake Bay.

Using the Army Corps of Engineers as a go-between, the NSA in January 1961 negotiated a five-year lease for the 210 acres on Cox Neck Road with the Diamond Construction Company of Savannah, Georgia, at a rent of \$4500 per year. Four years later, on February 24, 1965, the NSA executed its option and purchased the site for \$48,500.

Considered a "classified facility" by NSA, the location consists of a one-story, white, windowless NSA Propagation Research Laboratory, which houses between \$250,000 and \$350,000 worth of automatically operating, unattended equipment. Also on the site is a small, white, cinder-block control building inside a barbed-wire-topped chain-link fence. Near the control building are a number of unusual antennas. One is an awkward-looking radio direction finder — a large, steerable, rectangular antenna resting on top of an air-conditioned, windowed control room raised one story above the ground. Another appears to be a satellite transmitting antenna built atop a two-story platform. Others are a round, white radome raised about a dozen feet above the ground; a high-frequency, broadband, rotatable log-periodic antenna on top of a seven-story tower with a small, dish-shaped microwave parabolic reflector at its base; a low-frequency long wire antenna; numerous high-frequency antennas atop sixty-foot telephone poles; and, finally, what seem to be several microwave horn radiator antennas resting on the ground inside the fence and, apparently, another horn-type antenna on top of another seven-story tower.

Known within the R and E spaces of the Puzzle Palace as the Kent Island Research Facility, its purpose was explained by former NSA deputy director Louis Tordella during a closed-door hearing before a Senate subcommittee. The Agency established the facility, said Tor-

della, "for the conduct of research and evaluations on very-high-frequency and microwave antenna systems. These systems are peculiar to the Agency's mission. The area utilized to conduct this type of research and evaluation must have a low radio noise interference level. The types of antennas used in these systems require a wide, unobstructed view of the horizon. The size of the Kent Island tract (210 acres) is adequate to allow experimentation and development of several compatible projects simultaneously." More specifically, as Tordella elaborated at another time, "we are on Kent Island . . . examining anomalous propagation effects and other peculiarities associated with our problem of intercept of communications."

Although the facility is largely automatic and unmanned, it does have one resident engineer, Harry (Link) George, a burly island resident. "I'm the chief and crew," George said when asked how many people work there, adding, "It's a crew of one." With regard to the owner of the facility, however, all he would say was that it was part of the Department of Defense: "Anything other than that I can't say."

Finally, when questioned as to why the NSA had selected the isolated tract, Tordella made what an Agency detractor might consider a classic Freudian slip: "It happens to be ideally suited for our business; namely, very low and swampy."

## OVERHEAD

"I am 201. I can see the fence well."

Thirty-two thousand feet above the rocky landscape of Soviet Armenia, the MIG pilot had just spotted the Turkish border. A few minutes before, Russian radar had picked up the first blips of an unidentified intruder heading southeast across the "fence" from eastern Turkey. From their base near the Armenian capital of Yerevan, 201 and four other fighters scrambled off the tarmac for a rendezvous with the unwelcome visitor.

"To the south there is 2-3 balls," 201 radioed his base after glancing below at the 20 to 30 percent cloud cover. Then, a few seconds later, MIG 582 made visual contact. "I see the target, a large one," he informed 201, his group leader. "Its altitude is 100 [10,000 meters], as you said."

That very moment 201 also spotted the lumbering, four-engine propeller-driven aircraft and, without hesitation, gave the order, "Attack," as he himself opened fire.

The pilot of MIG 218 also had the unarmed target in his sights

but, probably never having downed an actual aircraft before, was reluctant to shoot. Noting this, 201 again shouted his command into his radio: "Attack, attack, 218, attack."

The trespassing pilot knew that the only way he could save himself and his crew members was to make it back across the border into Turkey. It was a distance of little more than a few dozen miles but with an air speed of 180 miles per hour and five MIGs attacking from his rear, he would need a miracle.

"Target speed is 300 [kilometers]. I am going along with it. It is turning toward the fence." There would be no miracles.

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"The target is burning."
 "There's a hit."
 "The target is banking."
  "It is going toward the fence . . ."
 "Open fire . . ."
  "218, are you attacking?"
  "Yes, yes, I . . ."
  "The target is burning . . ."
  "The tail assembly is falling off the target."
  "82, do you see me? I am in front of the target . . ."
  "Look!"
  "Oh?"
  "Look at him. He will not get away. He is already falling."
  "Yes, he is falling. I will finish him off, boys, I will finish him off
on the run."
  "The target has lost control, it is going down."
  "Now the target will fall."
  "82, a little to the right."
  "The target has turned over . . ."
  "The target is falling . . ."
  "Form up . . ."
  "82, I see. I am watching the target. I see."
  "Aha, you see, it is falling."
  "Yes . . . form up, go home."
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Shortly after two o'clock on the afternoon of September 2, 1958, the target, an American EC-130 ELINT aircraft on assignment for the National Security Agency, crashed in the mountainous terrain of Armenia, thirty-five miles northwest of Yerevan.

The most violent incident in the history of Soviet-American relations had just taken place. In the cloudy skies above the Russian town of Leninakan, the Cold War had suddenly turned white hot.

For many years the NSA had been "ferreting" the Soviet borders

with aircraft jam-packed with the latest in electronic and communications eavesdropping gear. Flying parallel to the Russian border, the aircraft would pick up the faint emissions of air defense radar, ground communications, and microwave signals. Once captured, the signals would be sent on to NSA for analysis.

It was an effective and efficient method of collecting the needed intelligence, and supplemented the ground-based intercept platforms by helping to fill in the blanks. But there was one major handicap: only that radar which is activated can be captured, and some of the most important radar became activated only by a border penetration. For this reason pilots occasionally engaged in the dangerous game of "fox and hounds"; they would fly directly toward the border, setting off the radar, and then pull away at the last minute. Once in a while pilots would actually penetrate Soviet airspace, intentionally or unintentionally.

The EC-130, piloted by Air Force Captain Rudy J. Swiestra, of Compton, California, had taken off earlier that day from Incirlik, a small American field outside of Adana, Turkey, and was to fly northeast to Trabzon, a dusty town on Turkey's Black Sea coast, where an Air Force Security Service listening post maintained a round-the-clock watch on Soviet communications and other signals. Once over Trabzon the ELINT aircraft was to turn east and head for the Soviet border and then parallel the fence down to the area of Lake Van, near the Iranian border. Once there, the plane would reverse direction and return to Adana along the same route. It was as the craft was returning north along the border that it veered into Russian territory.

As was the standard practice, SIGINT personnel at Trabzon were continuously monitoring Soviet air traffic. It was with growing horror, therefore, that they listened as the MIG pilots began blasting away at their fellow spooks. Word of the downing certainly must have been flashed almost immediately to President Eisenhower and other top officials over NSA's special CRITICOM network. But in order to maintain a cover for the operation, the Air Force initially listed the aircraft as missing and its fate unknown. Rescue planes, though, began searching the area along the border. The cover story was that the aircraft's mission was part of a worldwide Air Force project to study radiowave propagation, the usual story to cover NSA eavesdropping operations.

On September 12, ten days after the downing, the Soviet Union revealed that the plane had crashed in Soviet Armenia and that six crew members had apparently died. No mention was made of the other eleven persons on board and no mention of how the aircraft had crashed.

The following day Richard H. Davis, the American chargé d'affaires in Moscow, delivered a note to the Foreign Ministry, demanding information about the remaining eleven airmen and details surrounding the crash. Replying, the Soviets charged that the EC-130 had deliberately violated Soviet airspace but gave no further details.

It was a Catch-22 situation. Eisenhower knew exactly what had happened and why; he had probably even read the intercepted conversations of the MIG attackers. But to reveal this knowledge would be to tell Russia and the world that American intelligence continuously eavesdrops on the Soviet Union.

Instead, the Air Force released details of what it called an "investigation" of the incident. The investigation turned up several "witnesses" who had observed the plane being escorted eastward by Soviet fighters from the Soviet-Turkish frontier near the Turkish city of Kars. These witnesses had heard an explosion and seen a column of smoke rise from behind a range of hills in Soviet territory. Anyone who had read the intercepts, however, knew this was not the case; that the MIGs had not even seen the ELINT aircraft until it was well inside Soviet territory.

In Washington there was growing speculation that the eleven missing crewmen had bailed out before the aircraft crashed and either were taken prisoner or were still wandering somewhere in southern Russia.

Whatever the fate of the Americans, top officials of the Eisenhower administration felt certain that the Russians knew more than they were telling. It was decided, therefore, to take an unprecedented and calculated risk: to reveal secretly to Soviet officials the intercepted conversations of their own MIG pilots.

On November 13, Deputy Under Secretary of State Robert Murphy met in his office with the Soviet ambassador, Mikhail A. Menshikov, and with Major General Mikhail N. Kostiouk, the Soviet air attaché in Washington. Murphy had specifically requested that Menshikov bring Kostiouk with him.

After reviewing the diplomatic exchanges about the EC-130 incident, Murphy informed the ambassador that the United States government believed that the American pilot had probably made a navigational error as the result of signals transmitted by radio beacons in Soviet Georgia and Armenia. Then, having accidentally flown into Soviet airspace, the plane had been shot down by Soviet fighters "without regard to the rules of civilized international practice as though it was an enemy aircraft."

Ambassador Menshikov, as expected, denied the involvement of Soviet aircraft, and with that, Secretary Murphy launched into what

must be one of the most remarkable and dramatic offers in the history of the department. He offered to have played for the Russian ambassador the actual tape of the intercepted conversations between the Soviet pilots who shot down the EC-130. A startled Menshikov declined to listen to the recording, saying that he was not competent to assess it from a technical point of view. But Murphy had already taken that into consideration; he explained that it was for just that reason that General Kostiouk, an expert in aviation, had been invited to attend the meeting. In addition, he told Menshikov that it was his responsibility as the Soviet ambassador to the United States to listen to the recording. When Menshikov again refused, he was handed a transcript in Russian of the recording.

Before the two Russian diplomats departed, Murphy made it clear that the United States was serious in its determination to get to the bottom of the disappearance of the lost fliers. He mysteriously referred to "evidence" in the possession of the United States government, indicating "that additional and very important information was available" and that it was the intention of the government to pursue the case further.

What the "evidence" was, whether decipherments of Russian messages, interceptions of telephone conversations, or information from agents, has never been revealed. What does appear certain, however, is that the United States government, with this evidence, was convinced that the eleven had not perished in the crash.

Finally, Murphy emphasized that "some" of our men had been killed, that there were certain rules of conduct in the civilized world, and that the United States hoped and desired that information regarding the missing men would be forthcoming.

The dramatic episode in Murphy's office failed to produce the hoped-for response. Also, as expected, the Russians kept silent about the intercepts of their air communications, most likely out of embarrassment.

In separate meetings in January with veteran Soviet diplomat Anastas I. Mikoyan, then first deputy chairman of the Council of Ministers, both Vice President Nixon and Secretary of State Dulles pleaded for a statement about the missing men. Nixon cited the potential for reducing tensions between the two nations. Mikoyan's reply was short and to the point: all information had been released previously.

Incredibly, apparently convinced that the Soviet Union knew either the whereabouts or the fate of the airmen, the State Department continued to press the matter. Almost from the beginning, the initiatives and overtures to the Soviet Union had been quiet and behindthe-scenes and the results uniformly negative. Now the State Department decided to reverse its tactics, and on February 6 it went completely public. Almost certainly against the advice of the NSA, Dulles released a complete translation of the intercepted conversations between the MIG pilots just before, during, and immediately after the attack on the aircraft. The transcript showed without a doubt that the attack not only took place but was in fact deliberate. But though Dulles was prepared to show Russian culpability in the incident, he was not prepared to admit that the aircraft was on a spy mission. Nor, for that matter, would Dulles reveal how the United States had acquired the recording or why the government had waited five months to make it public.

Surprised and shocked, the Soviet government would have none of it. Calling the recording a "fake" and a "gross forgery," Moscow issued a statement charging that the material released was "concocted by the American intelligence service."

Prodded by relatives of the missing men, Eisenhower finally decided to take his appeal directly to Premier Nikita S. Khrushchev. On May 4, the U.S. ambassador to Moscow, Llewellyn E. Thompson, on instructions from the White House, met privately with the Russian leader at the Kremlin and again pressed for information. Whether Thompson brought with him any of the "evidence" that the State Department had referred to earlier is unknown. What is known is that Thompson came away empty-handed, and on November 20, 1962, the missing men were officially pronounced "presumed dead."

Whatever became of the Americans who took off on that early September morning to collect signals for the NSA may remain forever a mystery. If the State Department or the NSA knows the answer, neither is telling. But there was one more strange bit of information that turned up almost two and a half years after the aircraft took to the sky that may contain the answer. Buried deep in a January 1961 issue of the popular Soviet magazine Ogonek was the second installment of a long article by East German writer Wolfgang Schreir, dealing with American espionage. In that article, which was reprinted and translated from the East Berlin magazine Neue Berliner Illustrierte, Schreir referred to the flight of the American aircraft and then indicated that even before the Soviet fighters closed in on the plane, "eleven of the seventeen members of the crew dropped by parachutes on Soviet territory." Then Schreir added, "They were caught in the outskirts of Yerevan."

At first overlooked by the Soviet government, the article was later denounced as in error. But the fact remains that the information as originally printed bore the stamp of authority, in that the magazine was itself published in the printing house of *Pravda*, the official organ of the Communist Party, and presumably had been approved for publication. Since the Schreir article, no further word has ever been released about the men or their fate.

Despite the downing of the EC-130, the Puzzle Palace continued to send its ferrets aloft. In July 1959, a Navy P4M Mercator, specifically rigged for electronic surveillance, was strafed by North Korean MIGs while sniffing the air for signals thirty-eight miles off the North Korean coast.

In that incident, the twin-engine turbo-prop aircraft, with two auxiliary jet engines capable of being switched on for an extra burst of speed, was on a routine ELINT patrol at seven thousand feet. Suddenly there was a yell: "Sighted two swept-wing jets . . . They're firing at us!" A few seconds later, tail gunner Eugene Corder, a twenty-year-old Navy petty officer, collapsed with more than forty shrapnel wounds.

Normally, the P<sub>4</sub>M, a Navy antisubmarine warfare aircraft, could have relied on other weapons, such as a pair of 20-mm guns in a forward turret and a 50-mm pair mounted in a turret atop the fuselage, but these had been removed in order to squeeze in the special reconnaissance gear and five extra crew members to operate it.

To escape his attacker, Navy Lieutenant Commander Donald Mayer, pilot of the stricken craft, dived from seven thousand feet down to fifty feet above the whitecaps of the Sea of Japan. On the way down his copilot could see the big red stars painted on the fuselages of the fighters as they made six more passes, three of them with guns blasting. Mayer eventually made it back to Japan with only Corder wounded. He later recovered.

The thirty-third air incident involving Communist and United States aircraft since the early 1950s had ended. "This is the first time in one of these murderous attacks the crew has come home," Rear Admiral Frederick S. Withington, the top U.S. Navy commander in Japan, said after the plane returned. Eleven times previously, American and Communist aircraft in the Far East had been involved in similar brushes. Some of the Air Force crews had made it back, but all the Navy planes had been lost.

The bloody electronic air war continued throughout the 1960s, with the most serious incident taking place in the spring of 1969. On April 15 of that year, shortly after dawn, thirty Navy men and one Marine boarded an unarmed, four-engine EC-121 at Atsugi Air Base near Yokohama, Japan. The flight plan called for them to head

northwest until they reached a point off North Korea's Musu Peninsula. From there they were to make a number of elliptical orbits, each about 120 miles long, running from the northeast near the juncture with China and the Soviet Union, along the coast toward the southwest.

As the Navy SIGINT specialists turned dials and scanned frequencies, their flight was being monitored seven hundred miles away at the chief Naval Security Group base at Kamiseya, a few miles from Camp Fuchinobe, the NSA's headquarters in Japan.

Prior to any reconnaissance flights along the North Korean, Chinese, or Soviet Far Eastern borders, a top secret message would be transmitted to Kamiseya and other SIGINT stations, detailing the flight time and course that the plane would follow. Then, at the designated flight time, technicians would start adjusting switches and flipping on recorders to begin monitoring the various frequencies used by the radar and air defense stations in the target country. At the same time, other personnel attached to Operation Bullseye would begin homing in on the transmitters with their sensitive high-frequency direction-finding receivers in order to pinpoint their exact location.

One hour and seventeen minutes after the EC-121, with its six tons of eavesdropping equipment, left the runway at Atsugi, it transmitted a routine voice message. Four hours and forty-three minutes later the aircraft transmitted another routine message, this one by teletype. Then at 1:50 P.M., a little less than seven hours after it took off, the aircraft disappeared from the radar screen, shot down by North Korean fighters some ninety miles southeast of Chongjin, North Korea. All aboard were lost.

Immediately after the incident, all further surveillance flights in the Sea of Japan, which had been averaging more than sixty per month, were halted. Three days later, however, President Nixon ordered that the reconnaissance missions be resumed and that they receive adequate protection.

Besides serving as flying listening posts, airborne SIGINT platforms are also frequently used in tactical direction-finding operations. Known as airborne radio direction-finding (ARDF) platforms, their greatest role was during the Vietnam War, directing artillery and air strikes toward North Vietnamese ground units.

Typical of the ARDF missions was Combat Cougar, in which Air Force SIGINT personnel, snug in the bellies of EC-47 "gooney birds" and huddled over \$4 million worth of receiving equipment, electronically combed through the jungles eight thousand feet below. As soon

as an enemy unit was located, its "fix" would be transmitted to one of several major NSA Direct Support Units (DSU) on the ground, like that at Pleiku or Phu Bai. Once the fix was received, the personnel on the ground would triangulate the target by feeding the data into a computer, along with information received from other air, land, or seaborne DF stations, then pass it on to commanders in the field.

"The first bombing that ever occurred from ARDF data occurred in 1968," recalled one Combat Cougar veteran. "There was an area about 19 kilometers southwest of Hue that we'd been flying over. Some of the communications we collected and a pattern analysis that was performed on it indicated that there were quite a few NVA or VC units concentrated in a small area, about a mile in diameter. General Abrams personally ordered the largest B-52 raid that had ever taken place in Vietnam at that time. There was one sortie an hour for thirty-six hours, thirty tons dropped by each sortie on the area." So devastated was the site that it was afterward called Abrams Acres.

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Those are the workhorses — the plodding EC-47s, the fat EC-130s, and the hunchback EC-121s. Miles above, in the blue-black curve of space, the superstar of winged espionage makes its home. Faster than a speeding bullet, more powerful than a fleet of locomotives, and able to leap wide continents in a single two-thousand-mile-per-hour bound is the SR-71 Blackbird. Named for its sooty, heat-resistant titanium skin, which glows cherry-red as it flashes across the heavens at Mach 3.32, the successor to the ill-fated U-2 can photograph 100,000 square miles of the earth's surface in less than an hour from a height of more than 85,000 feet. At the same time, its package of superadvanced SIGINT sensors can chart electronic battlefields and peer deep over a border with side-looking radar.

In November 1978 President Jimmy Carter ordered the reconnaissance jets over Cuba to help determine whether recently arrived Russian MIG-23 fighters had a nuclear capability. (They did not.) One year later they were again ordered high over Havana to keep an eye and ear on growing numbers of Soviet troops taking up residence on the island.

As crafty as the Blackbirds are, however, they are mostly standins for the true overhead sentries, the spy satellites. A Blackbird will cover a hot spot until a satellite is in place, or will lend an eye with cloud-penetrating infrared sensors, but more than on any other platform, the Puzzle Palace relies on its growing space force of orbiting ferrets.

On a crystal-clear day in mid-August 1960, a C-119 transport flying eight thousand feet over the South Pacific near Hawaii managed to catch in its trailing Y-shaped net a three-hundred-pound capsule ejected minutes before by the Discoverer 14 satellite. Snared in the aircraft's trapezelike mitt as it parachuted toward the Pacific waves, the recovered orb symbolized the opening of the latest frontier in espionage: space.

A few days before the midair save, another orb had been successfully recovered after a gentle landing in the sea. The successes, after eighteen months and twelve tries, proved that space indeed was a suitable platform for espionage; that photos snapped over the most forbidden territories could be ejected from the satellites and recovered for processing.

The first steps in what has eventually become a Soviet-American "black" space race were actually taken six years earlier, in 1954, when CIA director Allen Dulles appointed Richard M. Bissell, an economist and brilliant innovator, as his special assistant for Planning and Coordination. What Bissell was planning and coordinating was a new form of reconnaissance platform, one that need not skirt alongside a hostile border or hopscotch in and out, but could fly completely over it with impunity: the U-2. In July 1955, just eighteen months after the contract with Lockheed was signed, the Black Lady became operational, and a fleet of twenty-two was deployed at a cost of \$3 million below the original cost estimate.

As the U-2s began winging their way over the Soviet Union, Bissell set up the informal Ad Hoc Requirements Committee (ARC) to coordinate collection requirements for the program. Originally the membership was limited to representatives of the CIA, the Army, Navy, and Air Force, but later, as SIGINT packages were added, NSA joined the group.

With the successful recovery of the Discoverer ejection capsule in 1960 and the subsequent race to provide the United States with a functioning and efficient satellite intelligence system, Bissell's ARC was replaced by a formal U.S. Intelligence Board committee, the Committee on Overhead Reconnaissance. Known simply as COMOR, the committee was responsible for coordinating collection requirements for the development and operation of all overhead reconnaissance systems.

The following year, in 1961, the CIA and the Air Force jointly formed a centralized administrative office to run the spy satellite program. This was the National Reconnaissance Office, an organization so secret that even today its very name is considered classified information. Similar to the NSA during the early 1950s, the NRO is considered

a "black" agency, one whose very existence is denied by the government.

Under the NRO arrangement, the Air Force and CIA informally agreed that the Air Force would provide the launchers, the bases, and the recovery capability for the satellite program, and the CIA would be responsible for the research, development, contracting, and security. It was also agreed that the director of the secret organization would come from the Air Force and report to the Secretary of Defense but would accept intelligence requirements from the USIB and its COMOR.

Shortly before the formal establishment of NRO, the Air Force made its first successful launch of the second generation of spy satellite: Samos. Launched aboard an Atlas-Agena A on January 31, 1961, Samos delivered its images not by ejecting capsules but by processing the photos on board and then transmitting the signals back to earth. Because such a procedure produced a picture of much lower quality, the system was used mainly for looking at the big picture or "area" surveillance, and capsule ejection satellites were used on lower orbits, taking the "close look" at targets selected from the area transmissions.

Photo intelligence, however, was only one of the treasures NRO hoped to mine from space. Equally important were the possibilities of using space for both SIGINT and early warning, both familiar subjects to the scientists at NSA. Among the warning satellites sent aloft during the early and mid-1960s was the Midas series, which was packed with sophisticated infrared sensors capable of detecting the heat from a ballistic missile on liftoff. The most controversial of the Midas launches involved a plan to have a satellite eject a canister that would spew 350 million hairlike copper dipole antennas around the earth in an orbital belt two thousand miles high, five miles wide, and twenty-four miles deep. It was theorized that the Midas belt would serve as a passive reflector for the relay of defense communications. After one failure, the mission reportedly succeeded with Midas 6 in May 1963.

Another of the early-warning series launched during this period was Vela, a twenty-sided satellite with eighteen detectors designed to detect nuclear explosions.

But of all the hardware sent aloft, the most secret were the SIGINT platforms. Known as ferret satellites, they often rode into space piggyback aboard a photo satellite and then were projected into a higher orbit.

As the systems became more sophisticated and more expensive, there were major battles throughout the intelligence community over

which sensors would be launched, where they would be targeted, and how the intelligence would be processed and distributed.

The most bitter fighting took place between the Air Force and the CIA over control of NRO. Although the Air Force technically ran the Reconnaissance Office, in reality it was little more than a deliveryman, launching systems designed, produced, and programmed by the CIA. Because of this, senior Air Force officials in the program protested that far too much effort was being directed toward national intelligence priorities at the expense of tactical Air Force objectives.

In 1965, after two years of battles that consumed a large amount of his time, CIA director John McCone buried the hatchet with the Air Force and agreed to a partnership arrangement known as EXCOM. Standing for Executive Committee, EXCOM was made up of the director of Central Intelligence, the assistant secretary of defense in charge of intelligence, and the Scientific Adviser to the President.

Under this system, the director of NRO would still be chosen by the Air Force, but now he or she would report directly to the EXCOM troika. EXCOM, in turn, would report to the Secretary of Defense, who was given the primary administrative authority for overhead reconnaissance systems. The arrangement also recognized the authority of the DCI, as head of the intelligence community, to establish the collection requirements in consultation with the USIB. In the event the DCI could not agree with the Defense Secretary, he had the right to appeal to the President.

The EXCOM arrangement was apparently successful in establishing a decision-making mechanism, but a serious problem remained in the area of analysis.

Since 1958, when the CIA established the Photographic Intelligence Center, the agency has been responsible for processing photo intelligence for the entire intelligence community. With the creation of NRO in 1961, the office was upgraded to the National Photographic Interpretation Center (NPIC) and housed in a tall, nearly windowless yellow cement building at the Washington Navy Yard (where it remains today). The new facility was staffed by both CIA and DIA analysts, which led to much duplication as analysts from both agencies studied the same photo for the same objective. As a result, DCI Richard Helms and Secretary of Defense McNamara set up a special joint review group to look into the problem.

The solution was to make the NPIC more of an intelligence community organization by giving the CIA its own in-house photo intelligence unit — the Imagery Analysis Service in the Directorate of Intelligence. And the USIB replaced COMOR, its satellite intelligence committee,

with a new committee responsible for coordinating both collection and analysis — the Committee on Imagery Requirements and Exploitation (COMIREX).

Just as the CIA has always been responsible for the imagery side of satellite espionage, NSA, with certain small exceptions, has always been responsible for the SIGINT side. Unlike the CIA, however, with its Photographic Intelligence Center and, later, its National Photographic Interpretation Center, the NSA during the early part of the spy satellite program, possibly for security, had no similar community-wide center for the analysis of SIGINT.

This was changed somewhat in September 1966 with the creation of the Defense Special Missile and Astronautics Center at NSA. Standing in front of a long ribbon, appropriately fashioned of teletype tape, newly appointed DCI Richard Helms, mouth open in the middle of a laugh, took a snip with his scissors and formally opened the intelligence community's newest addition: DEFSMAC (pronounced deaf-smack). Joining in both the laugh and the cutting were NSA director Marshall Carter and DIA director Lieutenant General Joseph F. Carroll. Behind, the full membership of the United States Intelligence Board applauded in approval. To symbolize the occasion, the USIB had decided for the first time to journey across the Potomac and hold a formal meeting at NSA headquarters.

So secret is DEFSMAC that it has never been officially revealed; even within the intelligence community it remains surrounded in mystery. It functions, apparently, as the electronic-spy world's early-warning nerve center. "If we start at NSA," says Raymond Tate, NSA's former deputy director for COMSEC, "we have a system like this: the Defense Space and Missile Activity [sic], (DEFSMAC), located at NSA, is a combination of the DIA with its military components and the NSA. It has all the inputs from all the assets, and is a warning activity. They probably have a better feel for any worldwide threat to this country from missiles, aircraft, or overt military activities, better and more timely, at instant fingertip availability, than any group in the United States."

Like a physician listening to a heart, DEFSMAC listens to the earth through a SIGINT stethoscope, hoping to detect the first sign of an irregular beat. Once such a sign is detected, the word would be passed instantly over DEFSMAC's direct CRITIC circuits to the White House Situation Room, the National Military Command Center at the Pentagon as well as the alternate War Rooms, and, most important, to the spacetrack and early-warning analysts at the North American Air Defense Command (NORAD) Headquarters, buried beneath 1450

feet of granite at Colorado's Cheyenne Mountain. This warning can range from a few minutes to as much as a day and may include such valuable intelligence as the type of missile or spacecraft to be launched or its likely trajectory.

Once the launch has taken place, an early-warning satellite in geosynchronous orbit will spot the rocket plume within one minute of liftoff and signal back to earth that a launch has occurred. From then on, watch officers at NORAD track closely the vehicle's flight profile to ensure that it is not on a "threat azimuth."

In the meantime, DEFSMAC notifies all potential listening posts and SIGINT sensors in the range of the vehicle to begin telemetry interception.

DEFSMAC's stethoscope depends, more than on any other input, on NRO's fleet of spy-in-the-sky ferrets and watchdogs, and for that reason the cooperation between the NSA and NRO has always been very close. NRO's most recent director, Dr. Robert J. Hermann, for example, spent most of his career at NSA.

Fresh out of Iowa State University, Hermann joined the Air Force in 1955 as an electrical engineer and was assigned to the Puzzle Palace. After two years he returned to Iowa State as an instructor in the Electrical Engineering Department but remained tied to NSA as a "consultant." In September 1959, after picking up his master's degree, he was selected for the NSA Fellowship Program and in 1963 received his Ph.D. from Iowa.

Back at NSA, Hermann rose rapidly through the ranks, serving as an electrical engineer on the Technical Planning Staff, then briefly at the Pentagon in the Defense Research and Engineering Office. In 1965 he became chief of NSA's Office of Systems Engineering and by February 1969 was deputy assistant director for Science and Technology and acting chief of the Office of Systems Management. A little less than two years later he became chief of W Group in PROD, and in July 1973, at the age of forty, the dark-haired, bespectacled Hermann took charge of one of the Agency's three major organizations when he was named deputy director for Research and Engineering.

After he had been head of R and E for only a year, NSA director Lew Allen assigned him as a special assistant to the director for the purpose of studying SIGINT support to military operations. This assignment led to his being selected in 1974 by Alexander Haig, newly appointed U.S. NATO commander in Europe, as his chief of Strategic Warning and Combat Information Systems staff, where his major responsibility was attempting to provide Haig with a system

of direct early-warning and tactical SIGINT support. The system apparently would allow Haig to receive time-sensitive SIGINT and other intelligence at near real-time speed, rather than having it first go to Washington for processing. This way both Haig and Washington would receive the warning indicators and tactical-and-combat-related intelligence simultaneously.

Two years after joining Haig, Hermann returned to Washington to become the principal deputy assistant secretary of defense for Communications, Command, Control and Intelligence (C³I), the Pentagon's deputy intelligence czar. After a year of so with C³I, Hermann achieved "his lifetime ambition," according to former COMSEC chief Ray Tate, when he was selected by President Jimmy Carter as assistant secretary of the Air Force for Research and Development and, more important, director of the clandestine National Reconnaissance Office.

With the coming of the Reagan administration, however, Hermann was told to clean out his desk. Because he still had a year or so until his retirement, he was kept on temporarily as a special assistant to the Pentagon's under secretary for Research and Engineering, Richard D. DeLauer. Appointed by President Reagan to take over the spy satellite organization was Edward C. Aldridge, who was also named under secretary of the Air Force.

Although details of the NRO's organizational structure have never been revealed, its framework may be pieced together from various sources. Apparently, the director is normally cloaked with the title of assistant secretary of the Air Force for Research and Development, as with Dr. Hermann, or with that of under secretary of the Air Force, as with Aldridge.

Because of the large number of other responsibilities faced by the holders of those two offices, day-to-day operation of the NRO most likely falls to the director of Special Projects, a directorate within the Office of the Secretary of the Air Force. Head of this office, which does not appear in either the Government Organization Manual or the Air Force Pentagon telephone directory, doubles as deputy commander for Satellite Programs of the Air Force Space and Missile Systems Organization (SAMSO), based in Los Angeles. Here, close to the major contractors for the spy satellites, such as TRW at Redondo Beach, California, and also the major launch site, Vandenberg Air Force Base, the NRO is principally headquartered. Liaison and coordination, but not direction, probably come through the Air Force Secretary's Office of Space Systems.

Among the pioneers in aerial espionage was Lieutenant General Lew Allen, Jr. In 1965 he became deputy director for Advanced Plans in the Directorate of Special Projects and was stationed in Los Angeles. Three years later he was assigned to be deputy director of the Office of Space Systems and became its director in 1969. In September 1970 he became assistant to the director of Special Projects and seven months later took over as director of Special Projects, with additional duty as deputy commander for Satellite Programs at SAMSO in Los Angeles. On March 1, 1973, newly appointed CIA director James Schlesinger picked Allen as his deputy for the Intelligence Community. As we have seen, it was a brief assignment; a few months later he took over the Puzzle Palace.

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About the same time that Richard Helms, scissors in hand, sliced through the yellow ribbon of teletype tape, officially opening NSA's DEFSMAC, the NRO was taking bids on an ambitious new satellite program designed to serve as a platform, not for just one sensor system, as before, but for multiple eavesdropping packages. Under the cover name of the Defense Support Program (DSP), and quite possibly the code name Byeman, this new generation of space bird was to be the principal element in America's ballistic missile early-warning system and, on a not-to-interfere basis, was to carry additional sensors, including, possibly, a SIGINT package.

In mid-December 1966 the contract for the satellite was awarded to TRW, and the sensor kit went to Aerojet Electrosystems. Twenty months later, on August 6, 1968, the first of the series, designated DSP Code 949, was secretly shot aloft from the Eastern Test Range at Cape Canaveral, Florida. Resembling a large, ten-foot oil drum from which drooped a noselike twelve-foot Schmidt infrared telescope, the satellite was placed in an extremely high, 22,300-mile geosynchronous orbit. At this height, the speed of the satellite would be almost exactly that of the earth, thus allowing it, in effect, to hover over a single spot on the earth's surface near the equator. Perched over Singapore, the long-nosed bird could "see" almost half the earth, including most of China and western Russia, but missing northern-most Siberia.

To overcome this problem, the orbit chosen for the satellite was slightly off center. Inclining the orbit 9.9 degrees enabled the craft to drift about ten degrees above and below the equator. It was thus allowed to trace out a figure-eight ground tract, bringing into its vision the higher latitudes of the Soviet Union. On this tract, during each twelve-hour period, the satellite would drift as far east as the South China Sea and as far west as the Indian subcontinent. To the

north, the craft would pass almost directly over Saigon, and then to the south over Jakarta. Due to the slight ellipticity of the orbit, the satellite was able to maintain a somewhat greater "dwell-time" in the more critical northern areas than in the south.

Although the spacecraft could, from this orbit, peer down on the northernmost reaches of the Russian continent, it was unable to view large portions of the land mass during its southern sojourns. To compensate, another 949 satellite was sent skyward on April 12, 1969, and placed in the same orbit, but synchronized so that it patrolled the north while its twin rotated south.

In addition to the satellite's long snout, which is designed to detect ballistic missile launches, presumably from infrared energy emitted by the rocket booster plumes and the high temperature of their reentry vehicles, the bird also carried Vela-type detectors for monitoring above-ground nuclear explosions.

The success of the twin Code 949 satellites was considerable, and they served as prototypes for an even more advanced series launched under the Defense Support Program's aegis: the Code 647 satellite. After one failure, the first 647 was launched on May 5, 1971, from Cape Canaveral, which is better located for a near-equatorial orbit than is Vandenberg, and parked over the Indian Ocean between the Maldives and Seychelles Islands. Another was launched on March 1, 1972, and stationed over the Panama Canal, where it could detect a submarine-launched ballistic missile attack from either the Atlantic or East Pacific Ocean.

Almost identical to the 949 craft, the DSP 647 satellites are reportedly the most important of all elements in the U.S. missile early-warning system. Three such satellites can provide full coverage of all potential ICBM and SLBM launch areas. According to another report, the red-eyed spycraft has observed more than a thousand ballistic missile launches by the Soviet Union, China, France, and the United States.

Although early warning is the number one priority for the 949-647 series, it is quite likely that later launches may have included a large amount of SIGINT equipment. In his book *The Technology of Espionage*, Lauren Paine claims that one of the integrated satellites was an "orbiting laboratory in miniature."

It could pick up, record, and transmit emanations from all land communication systems, including radio and microwave telephonic transmissions. It was also rigged with other varieties of electronic surveillance equipment which were sensitive enough to do the work of the hundreds of secret

listening posts the United States Intelligence community had in such places as Turkey, Iran, and West Germany. It was capable of duplicating everything those listening posts could do.

What Mr. Paine may have been describing was an experimental prototype of a new DSP satellite code-named Rhyolite. Launched on December 20, 1972, the prototype may have carried aloft an experimental test package for the most advanced bug ever invented.

Unlike their photo and infrared sisters, SIGINT satellites have always been cloaked under the heaviest of security blankets. Whereas photo and the other forms of imagery sensors have applications outside the intelligence community — such as for weather and for geologic surveys — there is no such demand for a commercial satellite whose sole purpose is to eavesdrop on the world below.

Known as ferret satellites, the SIGINT craft were originally developed during the late 1950s primarily to supplement the lumbering four-engine ferrets that prowled the Soviet and Chinese borders and occasionally didn't return. Although the manned airborne listening post, crammed with tons of sophisticated hardware, was obviously preferable to an oil drum-sized bug high in the heavens, the winged intercept station had numerous handicaps. Topping the list was geography. While the border radar along the route of the SIGINT patrols was relatively easy prey, the total amount of border area accessible to the aircraft was minute compared with the actual borders of the landed giants. More important, since one of the primary reasons for mapping and analyzing the radar installations is to enable the United States to develop countermeasures for bomber and missile penetration in the event of war, it would be of high importance to eavesdrop on the various defenses deep within the nation's interior. The satellite, therefore, with its celestial impunity was the perfect platform.

Although some experimental SIGINT equipment may have been built into a few of the early Discoverer spacecraft, true ferret launches seem to have begun early in 1962. On May 15 of that year, a secret launch sent a satellite into a near-polar orbit ranging from 180 to 401 miles. One month later a second satellite was launched into a somewhat higher orbit, of between 234 and 244 miles. As some speculation indicates, this may have been a sort of team approach to eavesdropping, whereby, as with the photo satellites, one spacecraft was designed for a sort of wide-area, search-and-find mission in which it would locate and log the approximate positions of the various radars as well as determine their frequency, and a second, larger and more

complex, would be used to follow up with a more comprehensive examination of those signals.

Reportedly, the altitude of three hundred miles would also be ideal for the interception of high-frequency communications. At that altitude a satellite would be within line-of-sight range of radar stations and radio transmitters up to twelve hundred miles away. In one day, then, as the satellite orbits north to south and the earth rotates east to west, the ferret would come within receiving range of virtually all radars and high-frequency transmitters in the world.

The satellite is apparently designed so that, as it passes over its preprogrammed targets, it can capture the various signals on tape and then, when over friendly territory, like Australia, transmit the intelligence back down to an earth station in highly compressed bursts.

During the mid-1960s, as fewer and fewer new radar sites were being discovered, some of the ferrets became compact enough to simply ride into space piggyback aboard a larger photo mission. When the photo satellite reached its normal operating height, usually under a hundred miles, the ferret would be dropped off, and a self-contained rocket would shoot it into a nearly circular, three-hundred-mile-high orbit. From here, the relatively small (about three feet and 125 pounds) satellite would conduct merely an inventory, rather than an examination, of the radars in its path. The information, once collected on earth, would be processed through a computer, and any irregularities or new stations would appear. During much of the 1960s and 1970s the SIGINT beach balls were launched piggyback into space at the rate of about three to five per year.

Although the orbs apparently performed admirably on some signals, such as radar and high frequency, other important signals were beyond their hearing. Chief among these were signals in the microwave frequencies that carried such important intelligence as telephone conversations and telemetry information. Microwaves, it was felt by NSA scientists during the mid-1960s, were too highly directional to be monitored from anywhere outside a relatively short and very narrow area.

Despite this skepticism, the decision was made to begin building what would, in effect, become the ultimate bug, Rhyolite. Under the National Reconnaissance Office framework, the CIA awarded the contract to TRW, which put together the satellite in its windowless M-4 building at Redondo Beach. It was the same facility that built the early-warning DSP Code 949-647 satellites, but, unlike its predecessors, Rhyolite was pure SIGINT. According to one account:

Each satellite carried a battery of antennas capable of sucking foreign microwave signals from out of space like a vacuum cleaner picking up specks of dust from a carpet: American intelligence agents could monitor Communist microwave radio and long-distance telephone traffic over much of the European landmass, eavesdropping on a Soviet commissar in Moscow talking to his mistress in Yalta or on a general talking to his lieutenants across the great continent.

First launched operationally on March 6, 1973, the satellite was placed into a geosynchronous orbit and parked above the Horn of Africa. From this aerie, Rhyolite could eavesdrop on microwave transmissions from western Russia as well as intercept telemetry signals transmitted from liquid-fuel ICBMs launched from the Tyuratam missile-testing range and solid-propellant missiles, like the SS-16 and intermediate-range SS-20, launched from Plesetsk.

A second Rhyolite was hoisted into geosynchronous orbit on May 23, 1977, and reportedly was positioned above Borneo, where, according to a former CIA official who was initially involved in the project, it is capable of "sucking up" a vast amount of both Soviet and Chinese military communications and radar signals. Also from this location, Rhyolite is better able to pick up telemetry intelligence from Soviet missiles that are fired from the eastern test ranges and smash into the Kamchatka Peninsula impact zone or in the North Pacific area northwest of the Midway Islands.

Two more of the satellites were sent into orbit on December 11, 1977, and April 7, 1978, and placed close by the original duo to act as spares in case of a malfunction.

In its role as a telemetry sensor, Rhyolite serves as one of America's chief "national technical means of verification" of Soviet compliance with the strategic arms limitation agreement (SALT I). As part of this agreement, signed in Moscow in May 1972, the United States and the Soviet Union both agreed "not to interfere with" or "use deliberate concealment measures which impede verification by national technical means of compliance with the provisions of this Treaty."

Through the use of Rhyolite for the interception of telemetry intelligence, or TELINT, the United States attempts to ensure Soviet compliance with such agreed points as the numbers and types of antiballistic missile launchers, ICBMs, and SLBMs. In addition, TELINT provides valuable information about Soviet ballistic missile development and targeting.

Apparently believing that satellites at extreme geosynchronous or-

bits were incapable of intercepting signals as directional as their very-high-frequency (VHF) and microwave band used for the transmission of telemetry data, the Soviet Union never bothered to encode telemetry. This reportedly changed in mid-1977, about six months after the USSR learned about Rhyolite from a spy working at TRW. Since then, the Soviets have begun encrypting the data on one-time pads and have even gone a step further by trying to come up with a "tape bucket" system, whereby the information is tape-recorded on board the missiles and then parachuted back to earth, thus frustrating the codebreakers. This denial of telemetry data became one of the major sticking points in the SALT II negotiations.

As advanced as Rhyolite is, it is still only one element in America's "verification" efforts. Of even greater importance are the land and sea platforms that peer into the Soviet Union from a half-dozen "windows," the most valuable of which was in Iran. Code-named Tracksman 2, the intercept station, located in the remote, mountainous village of Kabkan, forty miles east of Meshed, was the most important listening post America had for monitoring Russian missile and space launch activity. From this listening post, surrounded by nomads and described by one former CIA official as "a 21st-century operation of advanced equipment," intercept operators could easily monitor every detail of the liftoff and early flight of missiles launched from Tyuratam, a short seven hundred miles away. Its proximity to the test site also allowed the post to serve a "tip-off" function; it could signal satellites to switch on their cameras and recording equipment, and alert air crews in Alaska to take to the skies to monitor the end of a test trajectory.

Rhyolite, with its limited size and 22,300-mile distance above the test range, was slim competition. Even if the satellite were equipped with antennas as enormous as the ones at Kabkan, the laws of physics would prevent the telemetry signals reaching Rhyolite from being more than one one-thousandth the magnitude of those that had been received in Iran. In addition, many consider the intelligence gathered during the earliest moments of flight to be the most critical, because it reveals details about the boosters and throw-weights of the missiles. Even the low-flying SIGINT beach balls are just partially effective, since they pass overhead only briefly at various times throughout the day, times that the Russians could easily adjust their schedule to avoid.

Because of these limitations, the intelligence community during the mid-1970s began drawing up plans for a new generation of SIGINT satellites to replace Rhyolite. Code-named Argus, this new system was to provide for a "fallback" intelligence capability that could be used if SIGINT facilities in Iran, Turkey, or elsewhere were ever lost. Because of its sky-high price tag, though, the new system sparked a bitter — and very secret — battle in the intelligence community, the administration, and the Congress. The first confrontation was apparently between the SIGINT experts of NSA and the imagery specialists of the CIA. Referring to his schedule for the following day, former CIA director William Colby once noted: "Carl Duckett for Science and Technology said that tomorrow's meeting of the Executive Committee of the National Reconnaissance Office (which I would chair) would see a big fight over whether to delay an electronic sensor system in order to find the funds to keep one of our photo systems functioning at peak schedule with the increased costs that inflation had brought."

Eventually approved by the NRO, the system was submitted to Secretary of Defense James Schlesinger, Colby's predecessor at the CIA and now the official with the ultimate authority over all overhead reconnaissance operations. Known for the bloody budget-cutting ax he had used at CIA, Schlesinger let it swing once again, vetoing Argus even over the positive recommendation of his own Defense Intelligence Agency. Reportedly, he felt that the new system was simply not needed, since the United States had the Iranian posts and other land-based sensors.

Colby, however, was just as strongly in favor of the satellite program and, exercising his prerogative under the NRO procedures, took the matter directly to the President, with the recommendation that the National Security Council sit in judgment on the matter. President Ford agreed, and the Security Council came back in full support of Argus. That left the matter up to the House Appropriations Committee, which, taking note of the cost of the program and of the conflict within the Executive Branch over its worth, turned thumbs down on the proposal.

Despite the defeat, Argus was apparently reincarnated both in 1977 and 1978, but neither time did the \$200 million proposal make it past the desk of CIA director Stansfield Turner. At about the same time he was nixing Argus, his agency came out with a report expressing confidence that the Shah of Iran would keep his nation well under control for many years to come. Less than a year later, with the violent ouster of the Pahlavi monarchy, the CIA had reason to regret both the optimistic report and the rejection of Argus.

Within weeks of the coup, the American government put out word that it had ceased operation at the Kabkan listening post and at its sister station at Behshahr, on the Caspian coast. The intercept operators at Behshahr, in fact, had pulled out in December 1979. But Kabkan was not only vital; it was irreplaceable. For that reason the United States decided to take the dangerous step of continuing to operate the base in total secrecy even from the government of the host country. It was hoped that once the dust of the revolution had settled, new agreements could be worked out and the eavesdropping could continue uninterrupted.

But the convulsion that had seized the Iranian empire was growing more rather than less severe. Believing that all former American monitoring stations had been abandoned, the new Iranian chief of staff, Major General Mohammed Wali Qaraneh, in a brave assertion meant for local consumption, told a news conference in late February that his government would not tolerate American listening posts on Iranian soil.

On hearing the broadcast, Iranian airmen working with the Americans at Kabkan suddenly mutinied, took over the base, and held the foreigners hostage. Eight months before they themselves would become Iranian hostages, officials of the American embassy in Tehran worked out a settlement whereby the United States agreed to pay the airmen \$200,000 in severance and back pay on the condition that they set the Americans free. The bargain was accepted, and the SIGINT specialists headed for home.

The true loss from the seizure of Kabkan, however, was not measured in dollars; it was measured in opportunity. "Kabkan is not replaceable," said one official. "No tricks are going to overcome that in the short run, and the short run could be three or four years. It is going to affect our capability on verification. I don't think people realize how important that base was, not just for SALT, but generally for keeping up with the Soviet missile program. It provided basic information on Soviet missile testing and development. You're talking about a pretty big loss. It's serious."

Rhyolite could make up only in part for the closing of the Iranian window. Had the more advanced Argus been given the go-ahead, some argue, the situation might have been brighter. The loss of the posts in Iran meant that NSA in particular and the intelligence community in general have been forced to make do with less. They have had to beef up existing systems while searching for other vantage points. Suggestions included the use of specially equipped U-2 aircraft to fly from bases in Pakistan along the Soviet Union's southwestern border recording the telemetry, and the assigning of a larger role to the listening posts in Turkey. Both of these, however, were criticized

as inadequate by former DIA chief Daniel Graham. Basing monitoring stations in Turkey, said the retired Army lieutenant general, would be virtually useless because of the topographical interference created by the Caucasus Mountains. As for the U-2s, Graham said, "Sending airplanes would be fraud because they're not up for twenty-four hours and they can't carry the tons of equipment we had in Iran."

Partly because of these problems, the United States turned to an unlikely source to assist it in building a new SIGINT spy base: China. Because they had as much to gain by sharing in the intelligence as the Americans, the Chinese agreed, and in 1980 construction began on the listening post to be located in a remote, mountainous region of the Xinjiang Ulghur Autonomous Region in western China, near the Soviet border. China thus managed to become as important a platform as it is a target.

Supplementing Rhyolite in the heavens, in addition to the SIGINT beach balls, are two low-flying satellite systems that serve a combined photo and SIGINT function and could be modified to play a larger role in telemetry coverage.

The first is the Code 467 satellite, better known as Big Bird. Built by Lockheed and first launched on June 15, 1971, the satellite is a massive twelve-ton, fifty-five-foot-long spy station built around an extraordinary, superhigh resolution camera capable of distinguishing objects eight inches across from a height of ninety miles. On one mission, Big Bird reportedly snapped the make, model, wing markings, and ground support equipment of a group of planes stationed near Plesetsk. Infrared cameras on board are capable of detecting hidden, underground missile silos because the silos' temperature is warmer than that of the surrounding earth. Other sensors include multispectral photography, which aids in spotting camouflage, and an array of SIGINT listening devices.

Launched at the rate of about two per year, the Big Birds were the first satellites capable of both search-and-find surveillance and close-look detection. The major handicap of the Code 467 is its short life span, which started out at about 52 days but by 1978 was extended to 179 days.

The second of the low-altitude surveillance platforms (LASPs) is the Code 1010, or KH-11 satellite, code-named Keyhole. Even more sophisticated than Big Bird, Keyhole incorporates a real-time capability, permitting it to send back to earth high-quality, telephoto television signals as well as SIGINT information. Confirmation of the satellite's SIGINT capability came during a trial several years ago in which it was revealed that Section 2 of the sixty-four-page KH-11 systems

technical manual was classified TOP SECRET UMBRA, the overall code word for high-level SIGINT information. Nearby were the words "Spool Label Color-Coded for DP" and the word "canisters." This may mean that, like Big Bird, Keyhole can store exposed film and tape in canisters that are periodically ejected into the earth's atmosphere, descend by parachute to a point in the Pacific Ocean north of Hawaii, and are recovered in midair or float on or just under the surface of the ocean, giving off radio and sonar signals for eventual recovery by frogmen. The SIGINT spools, as opposed to the film spools, can then be sent for data processing (DP).

Keyhole was first launched on December 19, 1976. Later launches were on June 14, 1978, and February 7, 1980. It could achieve a three-hundred-mile-high orbit, almost twice as high as Big Bird's highest orbit, and thus had a life expectancy of about two years, a considerable improvement over the previous generation.

But despite the technological wonders of Big Bird and Keyhole, the satellites had problems in monitoring telemetry because they were low-altitude orbiters and thus easy prey for the Soviet test engineers, who would simply plan the more critical missile activities, such as liftoff, during times when the satellites were out of view. What was needed was an advanced, geosynchronous follow-on system to Rhyolite.

Argus was just such a system, but after three years of continuous defeats, it seems to have been abandoned for a new system, one considerably larger and far more sophisticated. Code-named Aquacade, the supersatellite was made possible by a new method of getting the SIGINT bug into orbit: the space shuttle. Unlike the past workhorse, the Titan III rocket, the shuttle promised to carry far bigger payloads, not only in terms of weight but also in size.

Such increased capability, though, was not without a price. What had to be sacrificed was time, since it would be years before the shuttle would be fully operational. But at the time, with the Iranian listening posts operating at full steam and Rhyolite backed up with in-orbit spares and showing no signs of quitting, it looked to the intelligence planners like a good risk. That was before anyone ever heard of a bearded religious zealot called Ayatollah Ruhollah Khomeini.

With the loss of the secret Tracksman stations, a loss only partly correctable by Rhyolite, DEFSMAC's primary intelligence source for Soviet space and missile activity vanished. Equally serious, the planned orbiting of Aquacade, which could help make up for the loss, had run into delay after delay because of difficulties with the space shuttle. The orbiting delivery truck was rapidly becoming NASA's answer

to the C-5A, with mammoth cost overruns and postponements measured in years.

To the Senate Intelligence Committee, however, increasingly concerned over the intelligence gap, the oversold shuttle began looking more like an Edsel. In early 1980, for example, the committee was told that the first operational launch of the spaceplane would take place in December 1981. Nevertheless, only six months later that flight had been pushed back to September 1982. Even worse, it now appeared that the shuttle would not be able to handle some of the spy satellites that had been designed for it. Addressing a closed congressional hearing, Air Force Secretary Hans M. Mark admitted that "the Shuttle may not perform up to its completely full payload capability... In other words, even though the Shuttle exists, we may not be able to use it to launch all of these spacecraft."

Faced with such problems, and worried about their effects on the SALT treaty and America's verification efforts, the Intelligence Committee cancelled Aquacade's shuttle reservation and ordered the SIGINT bird to be sent up atop an expendable rocket instead.

But now there were even more problems. Originally designed for the shuttle, the satellite was too big to be put on top of a rocket. This would force a scaling-down of the design, which might have an adverse effect on the entire mission. And not only that. Since both the Pentagon and the National Reconnaissance Office had put so much confidence in the space shuttle, the production lines of the larger launch vehicles, such as the giant Titan III booster, were on the verge of shutting down. This meant that, although the Air Force had planned for enough launch vehicles to cover the twelve "vital national security launches" (as they euphemistically term the NRO spy flights) planned between 1980 and 1985 in the event of shuttle problems, the costs would run to a stratospheric \$100 million per rocket. Conceded Air Force Secretary Mark, himself a former NRO chief, the price tag "would probably make them the most expensive rockets in history."

Launching the Aquacade series and some of the other oversized supersatellites would undoubtedly exceed even that amount, since it would require going back into production with still another booster in the process of being phased out in anticipation of the shuttle. This is the Atlas-Centaur's high-performance upper stage, which, when strapped onto the Titan III, will provide the extra push needed to get the satellites up to where the shuttle was supposed to carry them.

Yet, as costly as the rockets are, it is the bird itself that eats up the major share of the NRO budgetary dollar, a point emphasized by former NSA director Marshall Carter. Speaking of the NRO launch process, Carter noted, "That technique was pretty well established there and they would just light up another at Vandenberg. The big expense was in the research and development of the satellite body itself, what it contained, all the various collection things."

Thus, with the cost of a single satellite sometimes exceeding \$100 million, according to some officials, added to the \$100 million or so for the rocket, plus the combined reconfiguration costs, a single Aquacade SIGINT satellite could easily hit a quarter of a billion. Nevertheless, even though the satellite was built primarily for the NSA, none of its costs would ever, apparently, appear in the Agency's budget. Instead, they are secretly hidden in the classified budget for the Air Force, which serves as a cover for the NRO. This was confirmed by General Carter, a veteran of the early NRO organization when he served as deputy director of the CIA before leaving to head NSA. When asked whether the NRO budget was incorporated into the CIA budget, Carter replied: "No. They were knowledgeable of it when I was there of course because we had a great part of the participation, but as I recall, the NRO budget was within the Air Force budget. But a lot of the CIA stuff was in the NRO budget when I was there." Were the Puzzle Palace to be assessed for the full costs of its space program, its budget would most likely double or even triple. Shielded behind the oppressive secrecy of an agency whose very existence is a national secret, however, what minimal accountability there might have been simply vanishes. Referring to the spy satellite program, the late Allen Ellender, former chairman of the Senate Appropriations Committee, is reported to have lamented, "If you knew how much money we waste in this area, it would knock you off your chair. It's criminal."

Once the satellite achieves orbit, responsibility for both the operation of the ground collection stations and their costs is assumed by the NSA, although actual control of the spacecraft is retained by the NRO through its operations center in Sunnyvale, California, near San Francisco.

Planning for these ground terminals began in 1966, the same year that the Agency formed DEFSMAC and began taking bids on the DSP Code 949 early-warning satellite. Today there are at least three and possibly four of the supersecret SIGINT satellite ground terminals.

"It's a long way from Frankfurt." Staring down at the endless expanse of wind-swept earth, reddened like a Martian desert by whirling dust

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storms of iron-oxide sand, the comparison surely must have passed through the mind of the American with the dark, receding hairline and the heavy, black-framed glasses. The flight from South Australia's modern capital of Adelaide, lush with vineyards and olive groves, to Alice Springs, at the heart of the island continent's wild and fierce outback, is more than a journey of miles and hours; it is a journey of the senses.

Making the trip in January 1967, at the height of central Australia's hot, dry summer season, was Richard Lee Stallings, a mid-fortyish NSA official whose previous assignment had been at NSA's European headquarters, in Frankfurt. He was on his way to supervise the construction of the ground terminal that would serve as a way station between the planned SIGINT and early-warning satellites and NSA.

Stallings arrived down under in October 1966, a few weeks after the DEFSMAC ribbon-cutting ceremonies, and spent his first few months in Canberra, the Australian capital, working out the final niceties with government officials. These negotiations culminated in a secret agreement, signed on December 9 by Paul Hasluck, the Australian Minister for External Affairs, and E. M. Cronk, an American embassy official. The agreement was to run for a period of ten years and thereafter until terminated by either side, but on October 19, 1977, this was formally extended for nine more years, after which either government can request termination on one year's notice.

Smack in the center of Australia, "the Alice," as it is called by its population of white and aborigine ranchers and cattlemen, is the only town in a vast and untamed geographic void known to some as the outback and to others as the Center. One and a half times the size of Texas, the raw Australian interior is made up mostly of drifting desert and dry riverbeds. Like a never-ending series of smooth, graceful ripples, the Macdonnell Ranges cut across 250 miles of the heart of the outback, offering occasional patches of shelter and soil. A water hole in an elbow of the ranges served as a likely spot in 1872 for the establishment of a telegraph station. In honor of the wife of the superintendent of telegraphs, nearly a thousand miles south in Adelaide, the outpost was named Alice Springs.

By the time Richard Stallings stepped off his plane in January 1967, the population of Alice had grown to six thousand. Surrounding the town were massive cattle "stations," or ranches, some the size of Rhode Island. Although there is never an abundance of rain, when it does come it is usually enough to produce feed to fatten the cattle until the next cloudburst. But the previous eight years had been the worst in local memory. The drought, during which there had been just over an inch of rain in the first ten months of 1965 and less

than five the year before, had reduced the area to a dust bowl of starving cattle.

But the conditions that were so disastrous to the local population were precisely those considered ideal by the NSA. Less rain meant less chance of a signal being washed out and less possibility of interference from an electrical storm. The isolation of the area brought with it the advantage of freedom from interference caused by spurious signals and lowered the chance of being detected.

Six months before the formal United States-Australian agreement for the NSA base was signed, construction crews began laying a new road southwest of town. It was in the direction of Temple Bar Creek and the Mereenie water bores. Such a road had long been sought by the local residents, who depended almost entirely on the deep wells for their water, but the government had stubbornly resisted building it. It was therefore with both surprise and delight that they read the June 1966 announcement that such an access road was being laid. What they could not understand, however, was why the road kept going for miles past the water bores to nowhere.

Nowhere was eleven and a half miles southwest of Alice Springs at Laura Creek in a valley formed by the rocky foothills of the Macdonnell Ranges. Known as Pine Gap, it was shortly to be transformed from a Stone Age wasteland into a twenty-first-century spy base.

Today Pine Gap looks like an advance moon colony in the Sea of Tranquillity. Hidden in the valley is a secret community of 454 people, eighteen single-story concrete buildings, some the size of supermarkets, and, most startling, a futuristic array of six silvery-white igloolike radomes containing dish antennas ranging in size from less than 20 feet to about 105 feet. Others are about 70 and 55 feet, and two are 40 feet.

To decrease the possibility of both penetration and electrical interference, the planners have surrounded Pine Gap with a seven-square-mile "buffer zone" encircled by a double fence and have established twenty-four-hour-a-day patrols. Even aircraft are forbidden from flying closer than two and a half miles from the Gap. Its cover, as the sign next to the first checkpoint indicates, is a "Joint Defense Space Research Facility" sponsored by both the American and Australian Defense Departments.

In reality, the base serves as a terminal for a number of spy satellites and also as a highly sophisticated intercept station. Code-named Merino, Pine Gap was completed just before the launch of the first in the series of DSP 647 early-warning satellites, the first two of which were parked in geostationary orbit over Singapore, where they could

peer down on China and northern and western Russia.

Beamed down to Pine Gap from the spacecraft are signals from infrared warning devices designed to detect ballistic missile exhausts during the powered stages of their flight. In order to prevent any false warnings, televisionlike signals from a visible-light sensor (VLS) are also transmitted back to Merino for analysis by NSA personnel. Complementing these are most likely other sensors, including, possibly, a limited SIGINT capability. Once the data have been received at Pine Gap, notice of any significant situation or threat would apparently be transmitted instantly to DEFSMAC, where a real-time hookup might be instituted.

Additional radome-enclosed antennas were added in the early 1970s to collect signals from the orbiting Rhyolite satellites. The SIGINT data would apparently be recorded on tape as the satellite overflies the Soviet Union and China and then be transmitted at a high rate of speed to Pine Gap. A similar system is probably used for the small SIGINT beach balls; however, here the intelligence is probably first transmitted to the more powerful Big Bird photo satellites for relay to Merino.

Australia also serves as an ideal platform for direct nonsatellite interception of Soviet communications, according to one former NSA official:

Pine Gap is described as a "window" in internal NSA communications. Both Exmouth Gulf [a Naval Security Group intercept station on Australia's North West Cape] and Pine Gap have electronic interception missions along with other communications functions. Pine Gap and the antennas subordinate to it are quite important. They are ideally situated from a global "bounce back" point of view to monitor Russian high-frequency telemetry originating in the testing area near the Caspian Sea and in the down range at Tyura Tam [sic]. Australia is peaceful, quiet, and all that, and an ideal place for some kinds of NSA installations.

In November 1969 construction began on another highly secret American satellite terminal, this one code-named Casino. Smaller than Pine Gap, it was built at an equally isolated site on the Woomera Prohibited Area, a 73,000-square-mile tract of rugged and unpopulated land six hundred miles southeast of Alice Springs. Used for joint British and Australian weapons testing, the entire area is under heavy guard. Anyone granted permission into the forbidding territory is first issued a list called "Conditions of Entry to Prohibited Areas," which includes such warnings as "You shall not, unless duly authorized in writing

by the proper officer, by letter, orally, or any other means, disclose any information relating to . . . the Prohibited Areas."

Located in a small valley of the Prohibited Area known as Nurrungar (136.46°E and 31.19°S), Casino reportedly concentrates on processing imagery from photo satellites like Big Bird and the KH-11 Keyhole orbiter, and is therefore of primary interest to the CIA rather than the NSA. According to one report, Nurrungar receives photos transmitted from the reconnaissance satellites shortly after the spacecraft pass over China. It is needed to supplement other ground stations because the low-altitude orbiters are in transmission range for only ten minutes. The added station allows for more snapshots of the targets.

While construction crews were pouring blacktop past the Mereenie water bores toward Pine Gap, NSA was making plans to open another secret location on the other side of the earth. Harrogate, England, is exactly opposite Pine Gap, Australia, in more ways than its location on the globe. Instead of deserts pock-marked by dry lake beds and rugged, treeless mountain ranges, there are gentle hills, green rolling pastures, and mile upon mile of desolate moorland. Slightly less than two hundred miles north of London, the small quiet Yorkshire town, like its distant relative down under, was about to become a key player in a futuristic war of twenty-first-century espionage.

Throughout the summer of 1966, dozens of civilian NSA employees began quietly turning up at Harrogate's Grand Hotel. By June the number of spooks registered at the hotel had reached seventy, and by the beginning of July they had commandeered the entire building with a six-month lease. Before their arrival they had been briefed extensively never to admit their relationship with the NSA, but the presence of the new arrivals stirred rumors in the town that the secret American Army base eight miles to the west was about to be taken over by civilians.

"Well, we're not happy about it, but if they want it, I suppose they'll take it." Eleven years earlier, in the middle of February 1955, S. Robinson, owner of Nessfield Farm in the Kettlesing area west of Harrogate, received the surprising news that the British War Department wanted his 246-acre farm. No reason was given for the government's wanting 562 acres of rural moorland, but a year later four American Army officers and three enlisted men arrived, and construction began on a strange "communications" station.

Finally, on September 15, 1960, after five years and \$6.8 million worth of cement and antennas, the 13th U.S. Army Security Agency Field Station formally opened. Named Menwith Hill Station, the four-

hundred-man base, virtually free from urban electromagnetic interference, was ideally suited for eavesdropping.

As the American civilians continued to flow into town during the summer of 1966, the rumors of their imminent takeover were continually denied by both governments. Nevertheless, on August 1, the formal transfer from ASA to NSA officially, yet secretly, took place. Eventually, the sole military person on the base was a junior lieutenant recruited as commissary officer.

Soon after the changeover, the triple-fenced listening post started taking on an appearance strikingly similar to Pine Gap's. Giant dish-shaped antennas began going up, some accompanied by enormous eggshell-like radomes set on concrete nests. By 1980 the number of antennas had grown to eight. Beyond the fences were placed signs, in case there was any doubt, warning: MINISTRY OF DEFENCE / PROHIBITED PLACE / OFFICIAL SECRETS ACT / 1911-1939.

According to Frank Raven, chief of G Group until 1975, the major reason for the NSA's taking charge was the failure of the Army to allocate sufficient intercept spaces and resources for the much-needed strategic intelligence, such as diplomatic and economic targets. "The Army fought like hell to avoid intercepting it," said Raven. Until NSA moved in, the Army had been using the station primarily for tactical coverage. Also, NSA was upset because no resources had been devoted to intercepting the newer forms of communications, like satellite microwave.

Principal targets of Menwith Hill, according to Raven, are western Europe, eastern Europe, and the Soviet Union east of the Urals. "It wouldn't be any good on Siberia," he added. Most of the signals intercepted are too sophisticated to be attacked at the station and are therefore forwarded by satellite back to Fort Meade for analysis.

Some of Menwith Hill's strategic intercept capabilities were probably inherited from a U.S. Air Force Security Service listening post at Kirknewton, near Edinburgh — which just happened to cease operations the very day before NSA began operating the Yorkshire station. Some reports indicate that many of the operations formerly performed by Kirknewton were simply transferred down the road to the new NSA base. One former employee of the Kirknewton listening post explained the routine:

Intercepted telegrams came through on telex machines. I was provided with a list of about 100 words to look out for. All diplomatic traffic from European embassies was in code and was passed at once to a senior officer. A lot of telegrams — birthday congratulations for instance — were

put into the burn bag. I had to keep a special watch for commercial traffic, details of commodities, what big companies were selling, like iron and steel and gas. Changes were frequent. One week I was asked to scan all traffic between Berlin and London and another week between Rome and Belgrade. Some weeks the list of words to watch for contained dozens of names of big companies. Some weeks I just had to look for commodities. All traffic was sent back to Fort Meade in Washington.

Like Pine Gap, Menwith Hill has both a strategic intelligence collection mission and also an early-warning mission. And like the Australian station, it was transformed into an advanced satellite activity only a few weeks before the formal inauguration of DEFSMAC. It is probable, then, that at least part of its function is to serve as a ground station for one of the DSP early-warning satellites, possibly parked over the South Atlantic. Other antennas are most likely used to receive data transmitted by orbiting SIGINT satellites. A new antenna array, in fact, was added in 1973, the same year in which the first Rhyolite SIGINT bird became operational. The location of Menwith Hill would appear to be ideal for the collection of data from orbiting satellites passing over the Soviet Union's northern and coastal areas. Covered by such a satellite trajectory would be Russia's Plesetsk missile test site, as well as the sensitive Murmansk and Arkhangelsk seaport areas.

Still another satellite apparently associated with Menwith Hill is Big Bird. Evidence of this is the large number of employees from Lockheed Corporation, builder of Big Bird, attached to the station.

It is considered a choice assignment within NSA, and personnel are generally sent to Menwith Hill for three-year tours. Some live on station, where there is a recreation center, a club, a commissary, and a branch of the Tower Federal Credit Union — a credit union limited to employees of NSA or those associated with the Agency. According to one former Menwith Hill official, the station conducts its operations round the clock, with virtually all operational personnel assigned as shift workers, or, in Menwith Hill parlance, "trick trash." Nonshift workers, mostly office personnel, are in turn labeled "day ladies."

Security at the station is reported to be extremely tight. "All employees have to work under rigid security control," said one report. "Family members are ordered never to mention 'NSA,' and all, including children aged twelve and over, are instructed to report all contacts with 'foreign nationals.' Officials and their families have been quickly sent home for even minor indiscretions of teenage children."

The security briefings are apparently conducted before the employ-

ees and their families leave the United States and again, once they have arrived at the station, in the Mission Briefing Conference Room in the operations building.

Sharing seats alongside the NSA operators, at least in some areas, are SIGINT specialists from Britain's Government Communications Headquarters (GCHQ). According to the former Menwith Hill official, the two groups work very closely together. "In fact," he said, "the cooperation was so smooth that when the Brits would put down their earphones for their ten A.M. tea break, the Americans would simply cover their positions." He added that the GCHQ people were especially good in the computer software area and especially well adapted for attacking the European code systems, because of their extensive experience during World War II.

Chief of Menwith Hill Station for about five years, until the fall of 1980, was Albert Dale Braeuninger, a self-described "technician" in his mid-fifties who wears a lapel pin of joined American and British flags. When asked the mission of the base, Braeuninger gives his stock response: it is simply a relay station. Any connection to NSA is routinely denied. Despite this, when Braeuninger left Harrogate in 1980 he moved back to a home near Fort Meade and took over a senior position at the Puzzle Palace — an unusual transfer for the head of a simple relay station.

Finally, a third highly secret satellite receiving station was opened at Buckley Air National Guard Base, a heavily guarded facility in Aurora, just outside Denver, Colorado. Known as an Aerospace Data Facility of the Air Force Space and Missile Systems Organization (SAMSO), it appears to be a joint NSA-NRO operation and may control and receive data from the DSP 647 early-warning satellite launched into orbit over Panama on March 1, 1972, as well as other intelligence from such SIGINT orbiters as Rhyolite. One 1974 report indicated that the intelligence data flowing into Buckley through its five radome-covered satellite dishes was processed by powerful dual IBM 360-75J computers.

An indication of the secrecy surrounding Buckley is an episode that took place in September 1977. Forty-eight employees of the installation were fired for having smoked marijuana on occasion. Told by Air Force investigators that they were looking for evidence in an espionage investigation, the employees were questioned repeatedly about their use of marijuana or other drugs. Throughout the questioning, the interrogators from the Office of Special Investigation barred lawyers from the sessions on the grounds that they lacked the proper security clearance. Eventually the case came to the attention of James

H. Joy, local director of the American Civil Liberties Union, who termed the incident a "witch hunt" and brought pressure on the Air Force to reinstate the fired employees. Realizing that it had overstepped legal bounds, the Air Force relented and allowed back thirtynine of the people, mostly contract employees of the Hughes Aircraft Corporation and the Lockheed Aircraft Division, builders of the Big Bird.

The NSA, however, was not so forgiving with four of its employees caught in the fishing expedition, and ordered them to resign or be dismissed. Said the wife of one sixteen-year veteran of the Puzzle Palace: "We were just shanghaied."

## SEA

When Frank Raven took over the newly formed G Group in 1960 he underwent the NSA equivalent of culture shock. As the chief of GENS (general Soviet), he had been responsible for attacking the medium-level cipher systems and reading the unencrypted traffic of one major country, the Soviet Union, and a handful of satellite nations. Under the reorganization of PROD, however, the two Russian cryptanalytical divisions, GENS and ADVA (advanced) were merged into a single unit: A Group, under former ADVA chief Arthur Levenson. At the same time, ACOM (Asian Communist) became B Group and ALLO (all others) was transformed into Raven's new G Group.

Now instead of one country and a few satellites, Raven was responsible for, conceivably, more than a hundred nations speaking a score of different languages, including allies, neutrals, and the entire Third World. But there was an even more significant difference between GENS and G Group: a severe lack of intercept coverage and thus a lack of raw traffic. Whereas the Soviet Union was nearly circled by intercept stations and monitored round the clock by ELINT aircraft, the United States had only two listening posts in all of Africa—near Asmara on the wind-swept Eritrean plateau in Ethiopia and in Sidi Yahia in the sun-baked Moroccan desert. Thus there was virtually no coverage south of the Sahara. South America was even worse—there were no listening posts there, although there were several in Panama and one in Puerto Rico. To overcome this problem, the NSA decided to copy the Russians and build its own fleet of eavesdropping ships.

For years the Russians had been sending antenna-laden trawlers into waters close to sensitive U.S. military facilities and activities, hoping to pick up revealing signals. In April 1960, for example, the Vega,

a short, stubby, six-hundred-ton Soviet trawler with eleven antennas protruding from a huge electronics van mounted on the bridge, cruised down the East Coast of the United States and chugged within twelve miles of Cape Henry, Virginia. With a range of "hundreds of miles," according to one intelligence official, the electronic gear could easily pick up signals from the Navy's enormous naval base at Norfolk, as well as from nearly a dozen other smaller military facilities in the area.

Before arriving off Virginia, the Vega had swung through an area eighty-five miles east of Sea Girt, New Jersey, where the Navy was conducting maneuvers with the nuclear submarine U.S.S. George Washington, the first sub to be equipped with the twelve-hundred-milerange Polaris missile. At one point, the Russian spy ship even reversed its engines in what appeared to be an effort to ram a Navy tug assigned to pick up dummy missiles that the sub was firing.

Another prime target of the trawlers during the early 1960s was the U.S. nuclear weapons' testing program in the South Pacific. In the spring of 1962 a number of Russian intelligence collection vessels dangerously traversed the restricted nuclear testing area north of Johnston Island and patrolled ten to fifteen miles outside the boundaries. Largest of the ships was the modern 3600-ton hydrometeorological research ship Shokal'skiy, which was equipped with sixteen laboratories, a pad for launching meteorological rockets to study the effects of nuclear explosions on the upper atmosphere, and equipment to pick up and analyze debris from the explosions. This nuclear refuse could provide intelligence on such things as bomb design and yield. The time and approximate location of the explosions could also be determined from electromagnetic pulses received on board, and still other data were obtainable from optical observations of high-altitude bursts and from hydro-acoustic devices measuring sound waves from the explosion.

The idea of building an NSA navy at first met with considerable resistance within the Pentagon, but the go-ahead was finally received in 1960, and the Agency began scouting for a spy fleet. "What we wanted was a slow tub," recalled Frank Raven, "that was civilian, that could mosey along a coast relatively slowly, take its time, and spend time at sea."

First selected was the U.S.N.S. Private Jose F. Valdez (T-AG 169) (for General Auxiliary 169), a rusting veteran salvaged from the mothball fleet of the U.S. Maritime Administration. But to Raven and the personnel of G Group, "the Valdez was a dream boat." Originally named Round Splice and then the Private Joe P. Martinez, Valdez was

built at the Riverside Yard in Duluth, Minnesota, in 1944 and spent most of her life as a coastal transport with the Military Sea Transportation Service (MSTS), hauling troops one place and paper clips another.

Picked to be the sister ship of the Valdez was the U.S.N.S. Sergeant Joseph E. Muller (T-AG 171), almost a twin, which pushed supplies around the Far East until she retired in December 1956 after a few chilly months of Arctic resupply work.\*

They were slow, unglamorous, seagoing delivery trucks, but they were also ideal as electronic snoopers. Because they were run by the MSTS instead of the Navy, they could be home-ported far from a U.S. naval base. And because they were civilian-manned, they would be able to spend more time conducting operations and less time making liberty calls. Also, the slow speed was ideal for copying the maximum amount of traffic without the ship's appearing to be deliberately loitering.

Following commissioning and sea trials, the Valdez was sent off to Africa and home-ported at Capetown. From the South African port, the ship could easily cruise up and down either the east or west coast. Although the fact that she was a spy ship was almost an open secret, most of the African nations swallowed the cover story—that her mission was to cover Soviet missile testing. In fact, she did spend a small amount of time in the South Atlantic off Namibia, monitoring the landing of Russian missiles fired from Kapustin Yar. But her principal mission was to keep a close ear on the newly emerging nations of postcolonial Africa and on the internal struggles of the colonies that remained.

As the Valdez crawled up and down Africa, sometimes so slowly that someone once suggested painting a wave on her bow to give the impression that she was moving, the Muller, home-ported in Port Everglades, Florida, directed her antennas toward Fidel Castro's Cuba.

Shortly after the NSA began laying plans for its eavesdropping flotilla, the Navy became interested in the program, and a heated battle for control soon erupted. The resulting compromise eliminated much of NSA's autonomy and produced the second generation of spy ships. The ships to come after the *Valdez* and the *Muller* would no longer be civilian-manned or operated by the MSTS. Instead, the Navy would man and run the ships, and the Naval Security Group

<sup>\*</sup> There was, apparently, a third such ship, the U.S.N.S. Lieutenant James E. Robinson (T-AG 170), in operation at least during 1963-1964. However, little information about her is available. (Department of the Navy, Office of the Chief of Naval Operations, OPNAV Notice 5030, "Reclassification of Certain Naval Ships," October 30, 1962.)

would conduct the intercept operations. This meant that the Navy would be able to conduct some of its own targeting, but only on a not-to-interfere basis. Whereas the NSA was interested in national and strategic targets, such as diplomatic and political intelligence, the Navy was interested in foreign naval communications.

On July 8, 1961, the first of the second-generation spy ships was commissioned. Named the U.S.S. Oxford (AGTR 1 — for Auxiliary General Technical Research), the vintage World War II Liberty ship at 441 feet was more than a hundred feet longer than her two predecessors. She was also faster, which gave her the advantage of being able to get someplace in a hurry but the disadvantage of creating suspicion by cruising well below her maximum speed.

Throughout 1961 and 1962 the Oxford patrolled the eastern coast of South America and would occasionally relieve the Muller on her Cuban watch. In October, one of the two ships picked up the first indications that the Soviet Union was in the process of installing offensive missiles in Cuba. Armed with this tip, the CIA sent a U-2 aircraft high over the island and returned with the proof.

In 1963 two more of the second-generation seaborne listening posts were commissioned. These were the U.S.S. Georgetown (AGTR 2) and the U.S.S. Jamestown (AGTR 3).

Manned by a crew of 18 officers and 260 enlisted men, the Georgetown took over South American monitoring operations and relieved the Oxford, which set sail for the coast of Vietnam. In 1964, following a six-week assignment off Cuba relieving the Muller, she picked her way down the coasts of Venezuela, Brazil, Uruguay, and Argentina before returning to her home port of Norfolk.

On January 5, 1965, the Georgetown steamed through the Panama Canal and down the Pacific coast of South America, where she spent about three months eavesdropping off the coast of Chile. The second half of the year was spent on the Atlantic side of the continent.

In 1966 the SIGINT ship concentrated her eavesdropping operations in the southwest Caribbean and along the Pacific coast of Latin America. During her now annual Muller relief operations, the George-lown managed to pluck from the sea three fleeing Cubans on an innertube raft twelve miles north of Havana, a common activity of the Muller.

As the Georgetown concentrated on the Caribbean and Latin America, her sister ship, the U.S.S. Jamestown, assisted the Valdez in patrolling Africa. Passing through the Strait of Gibraltar on her first operational cruise in April 1964, she monitored North African communications as she slowly traversed the Mediterranean Sea and then collected

Middle East signals as she transited the Suez Canal and cruised down the Red Sea to the British Protectorate of Aden (now South Yemen). Following a brief port call, she continued around the Horn of Africa, down to Cape Town, and then up the West African coast, circumnavigating the continent. The 31,011-mile journey ended on August 17, when the ship steamed back into Norfolk.

Two and a half months later, on November 2, she again headed back across the Atlantic for SIGINT operations along the western and southern African coasts, making port calls in Cape Town and at Dakar in Senegal (now Senegambia). In the spring of 1965 the Jimmy T, as she was affectionately known by her crew, was reassigned to the Pacific coast of South America, and in October she headed to the Far East to aid the Oxford in monitoring the rapidly expanding war in Southeast Asia.

The final two ships of the second-generation sea-based platforms were commissioned in late 1964. Unlike the previous three, however, the U.S.S. Belmont (AGTR 4) and the U.S.S. Liberty (AGTR 5) were reconverted Victory hulls and were about fourteen feet longer and slightly more powerful than the Oxford, Georgetown, and Jamestown.

After several shakedown cruises in the Caribbean, the Belmont departed for Africa on April 26, 1965, to replace the Jamestown. Two days later, however, partway across the Atlantic, the ship received an emergency order to reverse course and proceed to an area just off Santo Domingo and begin monitoring operations. On April 28, presumably to protect American citizens caught in the middle of a sudden rebellion, President Lyndon Johnson dispatched 405 Marines to the Dominican Republic. The Belmont arrived two days later, and the following day was ordered to La Romana to evacuate 250 Americans. After some confusion, however, the Belmont returned to its operations area without the evacuees. By May 5, the United States had placed 22,289 troops on the island with a new purpose: "to help prevent another Communist state in this hemisphere."

The Belmont remained on station off Santo Domingo, monitoring internal and international Dominican communications until July 13, when she returned to her home port, Norfolk. She spent much of the remainder of 1965 and a large portion of 1966 picking up signals off Chile and Peru, and made a brief cruise down the coast of Venezuela in the fall.

At exactly 4:43 on the afternoon of October 17, 1966, while cruising a few miles off the Peruvian coast north of Callao, the *Belmont* began to suffer severe vibrations; they lasted about twenty seconds. The ship was immediately stopped and the crew was sent to general quar-

ters. The enemy, however, turned out to be Mother Nature: the *Belmont* became one of the few ships in history (if not the only one) to find itself 155 fathoms above the epicenter of an earthquake. Although the *Belmont* was not damaged, the city of Callao and the surrounding area suffered heavy destruction.

On February 1, 1967, the *Belmont* steamed out of Norfolk on a long journey that took her down the east coast of South America, through the Straits of Magellan, where she encountered fifteen- to twenty-foot waves, and then slowly past Chile, Peru, Ecuador, and Colombia, collecting miles of intercepted communications. Finally, on June 9, more than four months and 17,154 miles later, the tired ship pulled into Pier 4 at Norfolk.

Five weeks before the *Belmont* arrived back in home port, her sister ship, the *Liberty*, had sailed out of the same port on its fourth deployment along the West African coast. On May 22 she pulled into the Ivory Coast capital of Abidjan for what was to be a four-day port call.

But as the spring of 1967 was turning into summer, the focus of G Group's attention rapidly began shifting from Africa to another area of the world. "I do not wish to be alarmist," United Nations Secretary General U Thant cautioned the Security Council on May 19, "but I cannot avoid the warning to the Council that in my view the current situation in the Near East is more disturbing, indeed, I may say more menacing than at any time since the fall of 1956."

The day before, Egyptian President Gamal Abdel Nasser had ordered the UN peacekeeping force to leave Egypt and the Gaza Strip. Israel refused to allow the force to relocate on its side of the frontier. On May 20, Israeli tanks were reported on the Sinai frontier, and the following day Egypt ordered mobilization of 100,000 army reserves. On the 22nd, Nasser announced the blockade of the Gulf of Aqaba, and the Israelis followed up the next day by declaring the blockade "an act of aggression against Israel."

Anticipating the possibility of such a crisis, G Group several months earlier had drawn up a contingency plan. It would position the *Liberty* in the area of "LOLO" (longitude o, latitude o) in the Gulf of Guinea, concentrating on targets in that area, but actually positioning her far enough north so that she could make a quick dash for the Middle East should the need arise.

But G Group also had to do something about the Valdez. After more than four years of patrolling the tropical waters off the east coast of Africa, her bottom had become so encrusted with sea life that her top speed was down to between three and five knots, thus requiring her to be brought back to Norfolk, where she could be beached and scraped. It was decided to take maximum advantage of the situation and bring the Valdez home through the Suez Canal, mapping and charting the radio spectrum as she crawled past the Middle East and the eastern Mediterranean. "Now, frankly," recalled Raven, "we didn't think at that point that it was highly desirable to have a ship right in the Middle East; it would be too explosive a situation. But the Valdez obviously coming home with a foul bottom and advertising that she was coming home with a foul bottom and pulling no bones about it and being a civilian ship could get away with it."

It took her about six weeks to come up through the canal and limp down the North African coast — past Israel, Egypt, and Libya. But as she got about halfway between Greece and Italy, on May 23, Washington pushed the panic button. Following the announcement of the Egyptian blockade and the buildup of troops on both sides of the border, NSA decided it was time to send the *Liberty* up to the Mediterranean. As was the standard procedure, the request was submitted to the Joint Chiefs of Staff's Joint Reconnaissance Center, which would make the final decision and initiate the order. At 8:20 P.M. (EDT) the Pentagon dispatched a flash (highest precedence) message to the *Liberty*, instructing her to get underway immediately for Rota, Spain, where she was to take on supplies and await further orders.

The message was received on the *Liberty* about three and a half hours later, at 3:45\* on the morning of the 24th, and by 7:00 A.M. she was steaming east and then north at full speed (seventeen knots).

At NSA, G Group began rounding up all available Arabic linguists and packing them off to back-up listening posts in Greece, Turkey, and other stations around the Mediterranean. "By God," said Raven, "if you could speak Arabic and you were in NSA, you were on a plane."

The need for Arabic linguists was especially critical on the *Liberty*, which, because of her West African targets, carried only French linguists. So six Arabic linguists — three enlisted Marines and three NSA civilians — were flown to Rota to rendezvous with the *Liberty*. Also scheduled to rendezvous in Rota was the *Valdez*, which contained all the critical information on Middle East traffic: "who was communicating on what links — teletype, telephone, microwave, you name it," according to Raven.

<sup>\*</sup> Unless otherwise indicated, all times quoted are U.S.S. Liberty time.

On the morning of June 1, the *Liberty* pulled into Rota and took on 380,000 gallons of fuel and a supply of food and dry goods. Already waiting for the ship were the linguists and the reams of SIGINT data from the *Valdez*, which had headed back to Norfolk.

According to the original NSA plan, the *Liberty* was scheduled to depart that same day and steam for the eastern end of the island of Crete, where she would remain "parked." As a result of a hearability study conducted by the *Valdez*, it was determined that, because of what amounted to a "duct" in the air, that particular location off Crete was ideal for eavesdropping on the entire Middle East. "You can sit in Crete and watch the Cairo television shows," said Raven. "If you're over flat water, basically calm water, the communications are wonderful."

Within hours of her arrival at Rota, the *Liberty* had loaded all her fuel, supplies, linguists, and intercept data — but now there was a problem with the ship's unique but troublesome TRSSCOMM system. Short for Technical Research Ship Special Communications (and pronounced triss-comm), the system consisted of a sixteen-foot, dish-shaped antenna mounted on a movable platform and capable of bouncing a 10,000-watt microwave signal off a particular spot on the moon and down either to the receiving station at Cheltenham, Maryland, or to one of the other Navy SIGINT ships. The TRSSCOMM had the advantage of being able to transmit large quantities of intelligence information very rapidly without giving away the ship's location to hostile direction-finding equipment or interfering with incoming signals. But its major disadvantage was that it seldom worked properly.

The problem was with the complex hydraulic systems needed to keep the antenna pointed directly at the moon despite the bucking and rolling of the ship. Activated by an elaborate system of sensors and sophisticated computers, the various hydraulic mechanisms were never quite sufficient to twist and turn the massive dish. Purple fluid would gush from beneath gaskets, and the antenna would become useless. Another disadvantage was that, regardless of the hydraulic system, in order to communicate, both the ship and the receiving antenna had to have a clear view of the moon.

This time the problem was that the shipyard in Norfolk had mistakenly installed low-pressure fittings in the system where high-pressure fittings were called for. Throughout the night a crew on a nearby submarine repair ship put together some new fittings and managed to get the system working, but they warned that the repairs were only temporary.

The following morning the *Liberty* passed through the Strait of Gibraltar and steamed at top speed toward her operational area. Three days later, on June 5, she was passing the south coast of Sicily when Israel lashed out with air strikes against Egypt, Jordan, and Syria, annihilating their air forces on the ground while pushing its tanks deep into the Sinai.

At 8:49 on the bright, sunny morning of June 8, the *Liberty* reached what was known as Point Alpha. According to the top secret operational order received when she arrived in Rota, the ship was to proceed not to Crete, but to a point thirteen nautical miles from the eastern coast of Egypt's Sinai Peninsula (Point Alpha), where she would change course to the southwest and begin a slow, five-knot patrol along a ninety-mile dogleg ending at Port Said (Point Charlie), retracing the tract until new orders were received. Because Egypt claimed a territorial sea of twelve miles and Israel only six miles, the *Liberty* was ordered not to approach closer than 12.5 and 6.5 miles to the respective shores.

Nearly ten hours before the *Liberty* arrived off the Sinai, an NSA analyst rushed into the office of G Group chief Raven and asked incredulously, "For God's sake, do you know where the *Liberty* is?" Raven, believing she was sitting off the east end of Crete as originally planned, had barely begun to answer when the analyst blurted out, "They've got her heading straight for the beach!"

"At this point," recalled Raven, "I ordered a major complaint to get the *Liberty* the hell out of there! As far as we [NSA] were concerned, there was nothing to be gained by having her in there that close, nothing she could do in there that she couldn't do where we wanted her... She could do everything that the national requirement called for [from the coast of Crete]."

But the Navy, apparently, had other ideas for the *Liberty*. "Somebody wanted to listen to some close tactical program," said Raven, "or communications or something which nobody in the world gave a damn about . . . We were listening for the higher echelons."

Reluctantly, the Navy agreed to pull the ship back. A message was sent from the JCS Joint Reconnaissance Center (JRC) at 6:30 P.M. (EDT) (12:30 A.M., June 8, Liberty time), ordering the ship not to approach Egypt closer than twenty miles and Israel closer than fifteen miles. An hour and twenty minutes later an official of the JRC telephoned the duty officer at the Command Center of the Commanderin-Chief, U.S. Naval Forces, Europe, directing that the ship proceed no closer to the coasts than 100 nautical miles. This oral order was followed up with a written message dispatched from Washington at

9:10 P.M. (3:10 A.M. Liberty time), more than five and a half hours before the Liberty reached Point Alpha.

Yet, in what a congressional committee later called "one of the most incredible failures of communications in the history of the Department of Defense," none of those warnings ever reached the *Liberty*. Thus, on reaching Point Alpha, the ship began her slow crawl along the Sinai toward Port Said and the mouth of the Suez Canal.

Throughout much of the morning the *Liberty* had been buzzed by low-flying Israeli reconnaissance aircraft. The boxy, French-built Nord 2501 Noratlas transports were normally used to move cargo and troops. Several, however, had been converted into SIGINT ferrets and were also fitted with lens openings for photo coverage. Resembling the American C-119 "flying boxcar" with its double tail, the aircraft would circle the ship several times and then return in the direction of Tel Aviv. On several other occasions, high-flying jet fighters circled briefly and then departed.

At 1:10 P.M. Commander William L. McGonagle, commanding officer of the Liberty, sounded General Quarters. "This is a drill! This is a drill! . . . All hands man your battle stations," he shouted into the ship's general announcing system. The drill, the third in four days, had been prompted by news reports of poison gas being used in the fighting on shore. Although the reports later proved erroneous, the drill offered Commander McGonagle an opportunity to reinforce the seriousness of the almost unseen war, now in its fourth day. Directing the crew's attention to a large fire and tall spirals of thick, black smoke coming from the shore about twenty miles west of El Arish, he insisted that everyone keep his eyes wide open and his mind alert.

By now the war had dissolved into a one-sided slaughter. From the earliest moments of its surprise attack, the Israeli Air Force had owned the skies over the Middle East. Within the first few hours, Israeli jets pounded twenty-five Arab airbases ranging from Damascus in Syria to an Egyptian field, loaded with bombers, far up the Nile at Luxor. In the Sinai, Israeli tanks and armored personnel carriers pushed toward the Suez along all three of the roads that crossed the desert. Then, using machine guns, mortar fire, tanks, and air power, the Israeli war machine overtook the Jordanian section of Jerusalem as well as the west bank of the Jordan River, and torpedo boats captured the key Red Sea port of Sharm El Sheikh. One Israeli general estimated that in the Sinai alone, Egyptian casualties ranged from 7000 to 10,000 killed, compared with 275 of his own troops.

By Wednesday, June 7, nearly all resistance had been eliminated. Nevertheless, an essential element in the Israeli war plan was complete secrecy about all details of the true extent of the Israeli penetration into Arab territory as well as the size and scope of its military victories. Vital to the Israeli strategy was the prevention, for as long as possible, of any cease-fire imposed by any of the superpowers. The longer it took to end the war, it was reasoned, the more territory Israel could capture — and Israel still had definite plans for Syria. Thus, "any instrument," wrote American naval historian Dr. Richard K. Smith in the *United States Naval Institute Proceedings*, "which sought to penetrate this smoke screen so carefully thrown around the normal 'fog of war' would have to be frustrated."

At 1:50, Commander McGonagle secured from General Quarters and checked the ship's position on the radar screen: she was still in international waters fourteen miles off the shoreline of the Sinai. At 2:00 lookouts reported a jet aircraft about five miles off the starboard quarter, cruising at about five thousand feet on a parallel track with the ship.

A moment later, like a bolt of lightning, more jets swooped in from astern, barely clearing the masthead, and the *Liberty* was converted into a seagoing inferno. Deafening explosions rocked the ship, and the bridge disappeared in an orange and black ball. Seconds later they were back — Israeli Mirage and Mystère fighter bombers. Flesh fused with iron as rockets were followed by napalm, which was followed by strafing.

Back they came, crisscrossing the ship almost every forty-five seconds. Designed to punch holes in the toughest tanks, the Israeli shells tore through the *Liberty*'s steel plating like bullets through cardboard, exploding into jagged bits of shrapnel and butchering men deep in their living quarters. Then more napalm — silvery metallic canisters of jellied gasoline that turned the ship into a crematorium.

Then, as suddenly as it began, it was over. Scattered along the decks and on the ladders, eight men lay either dead or dying, including both the executive officer and the operations officer. More than a hundred more were wounded, many seriously. Commander McGonagle's right leg was torn wide open by shrapnel.

Gone was the radar and most of the radio equipment, along with the antennas, apparently one of the prime targets. Also destroyed was the critical gyro compass. Perforated by over a thousand holes, more than eight hundred large enough for a man's fist to go through, the bulkheads and decks took on a look of gray Swiss cheese.

In the moments after the attack, sailors lifted mutilated shipmates onto makeshift stretchers of pipe frame and chicken wire, damage control crews pushed through passageways of suffocating smoke and blistering heat, and the chief petty officer's lounge was converted into a macabre sea of blood-soaked mattresses and shattered bodies.

At 2:24, minutes after the air attack, horror once again washed over the crew as three Israeli motor torpedo boats were sighted rapidly approaching the ship in attack formation. A signal flashed from the center boat but was obscured by the smoke. The air strikes had destroyed the *Liberty*'s signaling lamps, making a return message impossible, in any event.

Suddenly the boats opened up with a barrage of fire from 20-mm and 40-mm guns. One armor-piercing bullet slammed through the ship's chart house and into the pilot house, coming to rest finally in the neck of a young helmsman, killing him instantly. Three other crewmen were slaughtered in this latest shower of hot lead.

Now the Israelis were ready for the kill. "Stand by for torpedo attack, starboard side!" Commander McGonagle shouted into the announcing system. At 2:31 a torpedo passed off the stern, and a moment later a second struck the *Liberty* forward of her starboard side, immediately below the waterline — the precise location of the ship's SIGINT spaces.

BOOM!!! In an instant a forty-foot hole opened in the side of the ship, and twenty-five more Americans, mostly highly skilled technicians attached to the Naval Security Group, were either blown to bits or drowned as the black sea rushed in and flooded the compartment.

Now dead in the water, the *Liberty* began to list to starboard as the French-built, sixty-three-ton torpedo boats began to circle, firing at men attempting to extinguish fires. At 3:15, following a "prepare to abandon ship" order, one sailor located three of the last surviving rubber life rafts and, after securing them with heavy line, dropped them over the side in the event of a final order. Seeing this, the Israelis mercilessly opened fire, peppering two of the boats with holes and cutting the line on the third. When it drifted past their torpedo boat they pulled it aboard, apparently as a grotesque souvenir of their cold-blooded massacre.

A few minutes later, more than an hour after the attack began, the three forty-two-knot torpedo boats turned and raced in the direction of their base at Ashdod. Almost at the same moment, as if awaiting official orders to begin the final act of the bloody drama, two jet fighters once again appeared off the stern, and two large Israeli Hornet assault helicopters, loaded with armed troops, hovered on either side of the wounded ship. "Stand by to repel boarders!" came the shouted order over the *Liberty*'s loud-speakers, but after several tense minutes

the four aircraft departed as mysteriously as they had arrived, leaving the *Liberty* to descend slowly into her watery grave.

But the Liberty was not yet ready to die. During the height of the assault, radiomen had patched together enough equipment and broken antennas to get a distress call off to the Sixth Fleet. Despite intense jamming by the Israelis, the transmissions reached their destination, and four "ready" F-4 Phantom jets of the U.S.S. America, cruising near Crete, catapulted into the air toward the Liberty, four hundred miles to the east. But as ready aircraft, the four apparently carried only nuclear weapons, and a short time later were recalled on orders of Secretary of Defense Robert McNamara.

Crew members of the America, as well as the carrier U.S.S. Saratoga, which was cruising nearby, then began the time-consuming process of off-loading the nuclear armament and switching to conventional bombs and rocket pods. Conversion completed, four F-4B Phantoms armed with Sparrow and Sidewinder missiles, along with four A-4 Skyhawks carrying Bullpup missiles tucked under their wings, scrambled off the deck of the America while four piston-driven Douglas A-1 Skyraider bombers with a fighter cover shot off from the Saratoga. Included in the pilots' orders was the authorization "to use force including destruction as necessary."

Shortly after the Sixth Fleet swung into a crisis mode, a fact that would have been readily apparent to any Israeli traffic analysts monitoring the sudden, sharp increase in U.S. fleet communications, the Israeli government launched a diplomatic offensive aimed at convincing Washington that the attack had been a mistake. At about 4.10 the Israelis informed the U.S. embassy in Tel Aviv that its defense forces had "erroneously" fired on a U.S. ship off the Sinai, and sent its apologies. Four minutes later the information was flashed to Washington and the Sixth Fleet, which immediately recalled the fighters and bombers.

At 4:32, words of ultimate terror again rang through the *Liberty*. "Aircraft and torpedo boats approaching, starboard side. Stand by for torpedo attack, starboard side." Panic immediately broke out in the makeshift hospital set up below the main deck. Men who were treating the injured, recalling the destruction of the earlier torpedo, clambered up the ladder, and those they were treating yanked loose IV tubes and reopened ugly wounds in a mad scramble not to be left to die. Seeing the pandemonium, Lloyd Painter, a junior officer who was himself injured, took command of the situation and managed to return the men and restore relative calm.

But the jets zoomed by overhead without incident, and the torpedo

boat 204T Tahmass appeared to be attempting to communicate with its signal lamp. The message, however, made no sense, and finally the Israeli commander shouted over a bullhorn in English: "Do you need assistance?" Commander McGonagle, enraged, gave his quartermaster an appropriate response to relay back to the Tahmass, one the Israelis were not likely to find in their phrase book.

Another attempt to contact the *Liberty* was made at 6:41, when an Israeli Sikorsky helicopter appeared overhead and dropped a message package to the deck. Inside was the card of Commander Ernest C. Castle, the U.S. naval attaché at the American embassy in Tel Aviv, with the note: "Have you casualties?" The answer could have been found by looking down at the rivers of blood crisscrossing the deck and the two bodies still lying in full view near machine-gun mount 51. An attempt was made to reply with the Aldis lamp, but the message was apparently not understood, and after about ten minutes the machine departed.

Despite a forty-foot hole in her twenty-two-year-old skin, a heavy list to starboard, most of her equipment destroyed, thirty-two of her crew dead and two thirds of the rest wounded, a dead executive officer, and a commanding officer whose life blood was overflowing his shoe, the *Liberty* was heroically brought back to life and slowly made her way toward safer waters.

Throughout the long night, propped up in a chair on the port wing of the bridge, Commander McGonagle continued to conn his ship, using the North Star ahead and the long wake behind for direction. Shortly after dawn, the *Liberty* rendezvoused with the American destroyers *Davis* and *Massey*, and, after eighteen continuous hours on the bridge, the weary skipper finally headed to what was left of his cabin.

Helicopters soon arrived and began lifting scores of wounded to the deck of the *America*, where the more seriously hurt were transported by plane to Athens and then to the naval hospital in Naples. Commander McGonagle, however, remained with the ship until she docked in Malta. After she spent five weeks in drydock for temporary repairs, he sailed her back across the Atlantic to Pier 17 at the Little Creek amphibious base near Norfolk, arriving on July 29.

On June 9, the day after the attack, the Israeli government presented its explanation of the incident to the U.S. embassy in Tel Aviv. It claimed that the 10,680-ton, 455-foot *Liberty* had been mistaken for the thirty-eight-year-old Egyptian troop transport *El Quseir*, a 2640-ton, 275-foot coastal steamer designed to hold four hundred men and forty horses.

Yet before the attack, the *Liberty* had been under close Israeli surveillance for more than six hours. On four occasions, specially converted aircraft packed with SIGINT gear and photo equipment made low circles over the ship, sometimes coming as low as two hundred feet and barely skimming the masthead. On two other occasions, jet fighters flew over the ship and circled several times.

Given the extent of that surveillance, it would seem utterly inconceivable that the Israelis could have confused the *Liberty* for the *El Quseir*. The superstructure of American SIGINT ships, bristling with antennas and a large microwave moon-bounce dish, was totally unlike anything in the Egyptian Navy, or almost any other navy in the world, for that matter. Also unmistakable were the giant "GTR 5" identification symbols painted on her bow and the sides of her stern, each in white accentuated by black shadowing. Only ten days before the attack, the nearly ten-foot numeral "5" on the *Liberty*'s bows had received a fresh coat of white paint. Also, the *Liberty* wore her name on her stern in English, not in the Arabic script of the Egyptian naval vessels. Likewise, it was not Arabic communications that the Israelis skillfully managed to jam, but English.

And then there was the flag. Five feet tall and eight feet across, the standard size 9 ensign was flapping gently in nine-to-twelve-knot winds during most of the morning, plainly visible atop the huge tripod-shaped foremast that towered nearly a hundred feet above the flying bridge. Yet despite the fact that the flag was continually checked each time there was an overflight, the Israelis limply claimed that the ship was not flying a flag when sighted. This became true only after the Israeli Air Force shot it down. And then in its place, at least five minutes before the torpedo boat took aim, the huge seven-by-thirteen-foot holiday ensign was raised.

Israel, boasting one of the most successful intelligence services in the world, the Mossad, could hardly have been unaware that the *Liberty* was an American SIGINT ship. It is even more unlikely that the Mossad, on the eve of war, did not know that the ancient *El Quseir* was, in fact, rusting alongside a pier in the port of Alexandria, 250 miles from where the *Liberty* was attacked, where she remained throughout the entire Six Day War.

"The Israeli government," former Liberty officer James M. Ennes, Jr., noted in his book, Assault on the Liberty, "must have been desperate for a scapegoat to have singled out El Quseir. The entire Egyptian Navy consists of a few converted Soviet and British destroyers, frigates, and submarines, some minesweepers, several boats, two yachts, and a single transport — El Quseir . . . No one could pretend that Liberty

was mistaken for a destroyer, a submarine, or the former royal yacht, so she would simply have to be mistaken for the *El Quseir*, which was, after all, the only scapegoat around."

Dr. Richard Smith agreed. "Indeed," he wrote in his analysis of the attack on the *Liberty*, "it is likely that the Israelis just picked out the Egyptian ship which most resembled the *Liberty*, even though this was a remarkable exercise in imagination."

If, as the overwhelming evidence seems to indicate, the Israeli explanation was manufactured and the attack was both premeditated and deliberate, what could have been the reason for such a ruthless assassination? One possibility is that the *Liberty* was attacked precisely because of what she was: a floating eavesdropping factory that was penetrating Israel's smoke screen and capturing on magnetic tape the telltale battle whispers of a lopsided war.

Far more threatening to Israel than a tub full of foot soldiers and a herd of horses were the *Liberty*'s sleeve monopoles and parabolic reflectors, her YAGIs and log periodics, the strange antennas and the men with their bulging earphones. Did senior Israeli officials fear that captured signals would indicate that the war was not started by Egyptian land and air forces moving against Israel, as Israel had originally claimed, but by a belligerent Israel itself?

It may have been just a coincidence that the final thrust of the war, the invasion of Syria, originally scheduled to take place on Thursday, June 8, was suddenly postponed as the *Liberty* steamed into the eastern Mediterranean. Or that the often faulty TRSSCOMM had just begun transmitting to Washington a few moments before the initial air strike against the ship. Or that the first targets attacked, after the four token .50-caliber machine-gun mounts were wiped out, were the antennas — cutting TRSSCOMM communications in midsentence. Or that the torpedo happened to hit precisely between frames 53 and 66, the number two hold, which contained the SIGINT spaces. Or that the postponed Syrian invasion finally took place less than twenty-four hours after the last shots were fired into the *Liberty*.

Or they may not all have been coincidences.

Nearly as bizarre as the attack itself was the reaction of the American government to the incident. A foreign nation had butchered American servicemen, sending thirty-four to their graves and more than a hundred others into hospitals and later, possibly, psychiatric wards. A virtually unarmed American naval ship in international waters was shot at, strafed with rockets, torpedoed, set on fire with napalm, then left to sink as crazed gunners shot up the life rafts. The foreign nation

then says, sorry about that, and offers an explanation so outrageous that it is insulting, and the American government accepts it, sweeps the whole affair under a rug, then classifies as top secret nearly all details concerning it.\*

Curiously, among those details were several intelligence reports that directly contradicted the Israeli claims. According to a July 27, 1967, CIA report, a confidential informant, presumably within the Israeli government itself, stated that there was no question that the Israelis knew what the ship was prior to the attack and implied that the attack was no mistake:

He said that "you've got to remember that in this campaign there is neither time nor room for mistakes," which was intended as an obtuse reference that Israel's forces knew what flag the *Liberty* was flying and exactly what the vessel was doing off the coast. [The source] implied that the ship's identity was known at least six hours before the attack but that Israeli headquarters was not sure as to how many people might have access to the information the *Liberty* was intercepting. He also implied that there was no certainty or control as to where the information was going and again reiterated that Israeli forces did not make mistakes in their campaign. He was emphatic in stating to me that they knew what kind of ship U.S.S. *Liberty* was and what it was doing offshore.

Corroboration of this report appeared several months later when other confidential sources stated unequivocally that the attack was deliberate and had been ordered personally by Defense Minister Moshe Dayan:

\*On April 28, 1969, almost two years after the attack, the Israeli government finally paid \$3,566,457 as compensation to the wounded crewmen of the *Liberty*. This was obtained, however, only after the men retained private counsel to negotiate with a team of top, Israeli-hired, Washington lawyers. A substantial portion of the claim, therefore, went to lawyers' fees. (Richard K. Smith, "The Violation of the *Liberty*," *United States Naval Proceedings* [June 1978], p. 70.)

Ten months earlier, the Israelis issued a check to the U.S. government for \$3,323,000 as settlement to the families of the thirty-four men killed during the attack. (Department of State press release, May 13, 1969.)

Finally, the U.S. government asked a token \$7,644,146 for Israel's destruction of the ship, even though \$20 million had been spent several years earlier to convert her into a SIGINT ship and another \$10 million had gone for the highly sophisticated hardware.

Despite the modest amount requested, the Israeli government refused to pay. By the winter of 1980, the interest on the original figure had reached \$10 million, and Israeli ambassador Ephraim Evron, following the American elections, suggested to outgoing Vice President Mondale that if the United States dropped the \$7.6 million down to \$6 million and eliminated the interest entirely, his country might be willing to pay the more-than-thirteen-year-old claim. President Jimmy Carter agreed, and in December accepted the \$6 million, absolving Israel of any further damages. (Bernard Gwertzman, "Israeli Payment to Close the Book on '67 Attack on U.S. Navy Vessel," New York Times [December 19, 1980], pp. A1, A4.)

[The sources] commented on the sinking [sic] of the U.S. Communications ship *Liberty*. They said that Dayan personally ordered the attack on the ship and that one of his generals adamantly opposed the action and said, "This is pure murder." One of the admirals who was present also disapproved the action, and it was he who ordered it stopped and not Dayan.

Whatever the truth may be, it is clear that the incident, a most violent act of terrorism committed against the United States government, deserves to be more fully explained by both governments.

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Two years before the attack on the *Liberty*, in the spring of 1965, plans were underway for a third generation of spook ships. Although by now the United States already had seven in its eavesdropping fleet, these were all directed against strategic targets — inland governmental, commercial, and military communications — and were responsible almost exclusively to the NSA.

For years this situation had been a sore spot for the Navy, long used to sharing command with no one when it came to matters of the sea. Therefore, when the NSA began laying plans for the civilian ships *Valdez* and *Muller*, the Navy quickly fired off a salvo of protests and insisted that all future SIGINT ships be traditional naval vessels manned by naval crews.

But now the Navy had become little more than seagoing chauffeurs and hired hands for the NSA, permitted to go after its own targets only when doing so could not in any way interfere with the primary mission — monitoring NSA's targets. Thus, when it came to its own SIGINT operations, primarily against foreign naval signals, the Navy had to stick its analysts in awkward, antenna-covered mobile vans, place them aboard destroyers and destroyer escorts, and then pull the ships out of normal service to patrol slowly along distant coasts. It was a highly inefficient operation, combining the minimum collection capacity of a crowded steel box with the maximum costs of using a destroyer to cart it around.

The destroyers and escorts were also very provocative. Where few nations would notice an old, converted supply ship slowly cruising up and down a shoreline, they would have ample reason to be alarmed if it was an American warship. The destroyers *Maddox* and *Turner Joy* were cruising on just such missions, known as "DeSoto patrols," in the Gulf of Tonkin in 1964 when they were allegedly attacked by enemy torpedo boats, an incident that led to the first U.S. bombing of North Vietnam.

Among those most troubled by this situation was General Carter's nemesis, Dr. Eugene G. Fubini, then fifty-one, an assistant secretary of defense and also the deputy director of Defense Research and Engineering. As the Pentagon's electronic spy chief, he had been particularly concerned about the Soviet Union's extensive fleet of about forty SIGINT trawlers, which would not only loiter off such sensitive areas as Norfolk and Cape Kennedy, but frequently would tag along with American naval forces operating in the Mediterranean and Pacific.

"These trawlers were following our fleet," Fubini once recalled, "bothering us, listening to us, copying everything we said. They knew our tactics and the technical parameters of our equipment. They probably knew more about our equipment than we did. So I began to wonder: Why can't we take a leaf from their book? Why can't we do the same thing? If we could mingle with them, we'd know what they were up to."

Fubini's idea for an American version of the Russian spy fleet was readily acceptable to Admiral David L. McDonald, the chief of Naval Operations, who was well acquainted with the problem from his previous assignment as commander of the U.S. Sixth Fleet. On April 20, 1965, Fubini and McDonald sat down with Vice Admiral Rufus L. Taylor, director of Naval Intelligence, and Rear Admiral Frederic J. Harlfinger II, assistant director for Collection for the Defense Intelligence Agency, and discussed the various ways to approach the problem.

Originally, Fubini's dream was on the grandest of scales. He envisioned the program broken down into three phases, the first two of which called for thirty reconverted "tuna boats," at a cost of about \$1 million each. The third phase would add forty more, these built from scratch. Once the dream passed through the sobering reality of the budget process, however, phase one and two had been slashed to three ships, and phase three was cut to a dozen, or fifteen at most. At the same time, the idea of using tuna boats was scrapped because they were considered too light for the heavy SIGINT equipment. Instead, AKLs (for Auxiliary Cargo Light), tiny tramp steamers, some smaller than many tugs, were substituted.

A few days after the meeting, a feasibility study was initiated, resulting, about six weeks later, in a two-phase recommendation. First, the Navy would start off with one ship operating in the Western Pacific, then add two more ships in the same area about a year later. If these two missions were successful, the Navy could then proceed to build a small flotilla of the ships for use in trouble spots around the world.

The plan quickly received the approval of Fubini's boss, Harold Brown, the director of Defense Research and Engineering, as well as Cvrus R. Vance, the deputy secretary of defense.

Chosen as the maiden vessel for the Navy's spy fleet was the U.S.S. Banner, a humble little craft that had spent most of her life bouncing from atoll to atoll in the Mariana Islands and was now on her way back to the United States to retire in mothballs. At 935 tons and 176 feet, the twenty-one-year-old ship was a dwarf compared with the 10,680 tons and 455 feet of the Liberty.

Throughout much of August and September, the *Banner* underwent modifications at the Puget Sound Naval Shipyard in Bremerton, Washington, transforming her into AGER-1, for Auxiliary General Environmental Research, a euphemism for a third-generation seaborne listening post.\* On October 1, a brief seven weeks after she entered the yard, the *Banner* steamed out of Bremerton directly to Yokosuka, Japan, arriving seventeen days later for the initiation of her first patrol.

Code-named Operation Clickbeetle, the Banner's mission called for a series of four- to six-week patrols in the Sea of Japan to "conduct tactical surveillance and intelligence collection against Soviet naval units and other targets of opportunity," according to her top secret orders, which continued:

- C. Upon sailing for patrol station, Banner will check out of the movement report system, and will proceed to her assigned patrol areas in strict electronic silence. Silence will be maintained until Banner is detected and comes under surveillance by Soviet bloc forces, at which time Banner will break silence and submit periodic reports. When surveillance of Banner by Soviet bloc forces ceases, Banner will resume electronic silence.
- D. Upon arrival in the assigned patrol areas, *Banner* will be authorized freedom of movement within her assigned patrol areas to monitor lucrative Soviet naval deployments or exercises.

The order also contained a number of restrictions, including the warning to the ship to "remain a minimum of one mile outside the Soviet bloc-claimed territorial waters, a total distance of thirteen miles."

After arriving at Yokosuka, the Banner departed almost immediately on her first patrol, a hazardous mission scheduled to take her within four miles of Siberia's Cape Povorotny Bay. For many years the Soviet

<sup>\*</sup> The AGER designation actually took effect on June 1, 1967. Prior to that she was designated AKL-44. (Department of the Navy, Office of the Chief of Naval Operations, OPNAV Notice 5030, "Reclassification of Naval Ships," May 2, 1967.)

Union had maintained that her territorial waters extended twelve miles from the mouth of the bay, a claim the United States disputed on the grounds that it violated the "baseline" concept of international law. The *Banner*'s assignment was to find out just how serious the Russians were about the claim.

As the Banner chugged north toward Siberia, a frigid storm began caking ice forward and on the superstructure. Still closer — and Soviet destroyers and patrol boats began harassment exercises by darting in and out toward the bobbing trawler, sometimes closing to within twenty-five yards before veering away. But as a fresh storm began brewing, the fear of capsizing under the weight of the ice predominated, and the Banner's skipper, Lieutenant Robert P. Bishop, radioed his headquarters in Yokosuka and then swung 180 degrees back toward Japan. Several hours later a reply came through, ordering him back and warning him not to be intimidated. Bishop obeyed and turned back into the storm, but finally gave up after progressing a total of minus two miles over the next twenty-four hours.

In the three years that followed, the Banner conducted a total of fifteen similar missions. Of these, the first seven were in the Sea of Japan, primarily monitoring the major Soviet naval base at Vladivostok. Three of the remaining eight were off the coast of mainland China in the East China Sea, and the final five were back in the Sea of Japan. There was harassment during ten of the Banner's sixteen patrols, the most serious in the East China Sea off Shanghai, when eleven metal-hulled Chinese trawlers began closing in on the Banner. Lieutenant Bishop, however, skillfully managed to maneuver away from the danger without incident.

According to Trevor Armbrister, in his book A Matter of Accountability, the Navy had originally wanted to operate the Banner only off the coast of the Soviet Union, theorizing that there would be a minimal risk involved since it would be merely countering similar surveillance by the Russians. No such quid pro quo existed with the Chinese or North Koreans, however, and it was feared that they might retaliate against the ship. Nevertheless, according to Armbrister, the Navy agreed to task the Banner against those countries only after considerable pressure from the NSA, which found the Clickbeetle program exceeding their expectations and were hungry for more.

Under the original plan, Clickbeetle was designed to free the Navy from the "sharecropper" role it had suffered on the five large NSA ships. Now the situation would be reversed, and the Navy would pick the targets and allow NSA tasking only on a not-to-interfere basis. But the NSA found the program far too valuable to leave entirely to the admirals, and it forced a compromise whereby some missions

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would be available to NSA for "primary tasking" and others would go primarily to the Navy.

Shortly after the Banner left Bremerton for Yokosuka, the Navy began to implement phase two of the SIGINT program and located two more coastal freighters to convert into AGERs. Their names reflected the monotony of their tasks as Army supply ships: FS-344 and FS-389, soon altered to the U.S.S. Pueblo (AGER 2) and the U.S.S. Palm Beach (AGER 3). In April 1966 they were towed to Bremerton and, because of numerous modification problems as well as budget cutbacks, spent the next year and a half undergoing extensive conversion. Finally, on December 1, 1967, the Pueblo sailed into Yokosuka harbor to join the veteran Banner.

Throughout the fall of 1967, as the *Pueblo* was undergoing sea trials, a six-month schedule for the *Banner* and *Pueblo* was drafted. It called for nine separate missions, including one off North Korea, two off the Soviet port of Petropavlovsk, two in the East China Sea, and four in the Sea of Japan. Of these, the NSA demanded primary tasking on at least five.

The first mission, this one Navy-sponsored, went to the *Pueblo*. It called for the ship to "sample electronic environment of east coast North Korea" and to "intercept and conduct surveillance of Soviet naval units operating Tsushima Straits." The estimate of risk: "minimal." After all, said one official, "based upon 150 years of never having [anything] happen," what was the chance of something happening this time?

Following standard procedure, the request for final approval of the *Pueblo* mission worked its way up the chain of command and into a fat notebook with "Monthly Reconnaissance Schedule for January 1968" written in bold letters across the front. Maintained by the Joint Chiefs of Staff's JRC, the loose-leaf binder contains brief summaries of the several hundred surveillance operations during the coming month. These may range from SR-71 overflights of China to submarine snooping in the White Sea.

Once complete, the notebook, "the size of a Sears, Roebuck catalogue," according to one former official, is sent off to the various concerned agencies for approval, disapproval, or comment. On Friday, December 29, the notebook with the *Pueblo* proposal was sent out and received back the same day, duly approved by the JCS, CIA, NSA, and the State Department. Later that day it was also approved by Paul H. Nitze, the deputy secretary of defense, and by the National Security Council's secret 303 Committee. There were no comments and no disapprovals.

Yet there was one lingering doubt. It was in the mind of a retired

Navy chief petty officer at NSA who was very uneasy over the *Pueblo*'s "minimal" risk assessment. This assessment, he knew, was the job of the Defense Intelligence Agency, and NSA had no responsibility in the matter, especially since this was a Navy mission. Nevertheless, the uneasiness grew, so he brought his concerns to the attention of his superiors, and eventually the deputy assistant director of PROD agreed. Even though he had never contradicted a DIA assessment before, he felt in this case that a "warning message" was justified, and he addressed it to the JCS "for action":

The following information is provided to aid in your assessment of CINCPAC's estimate of risk... The North Korean Air Force has been extremely sensitive to peripheral reconnaissance flights in the area since early 1965... The North Korean Air Force has assumed an additional role of Naval support since late 1966. The North Korean Navy reacts to any ROK naval vessel-ROK fishing vessel near the North Korean coast line... internationally recognized boundaries as they relate to airborne activities are generally not honored by North Korea on the east coast of North Korea... The above is provided to aid in evaluating the requirements for ship protective measures and is not intended to reflect adversely on CINCPACFLT deployment proposal.

The message arrived at the DIA's Signal Office in the Pentagon at 10:28 that night and was sent over to the National Military Command Center, where the watch officer decided to refer it to Brigadier General Ralph Steakley, the chief of the JRC. He also decided to send a copy to the chief of Naval Operations but mistakenly attached the wrong designator — and the message was to be lost for a month. But there was still the message sent to the JRC.

When General Steakley arrived back in his Pentagon office on January 2, he saw the NSA warning message but never brought it to the attention of either the JCS or the DIA. Instead, he changed the priority of the message from "action" to "information" and sent it off to the headquarters of the Commander-in-Chief, Pacific, in Hawaii, not bothering to designate any particular office. As a result, when the message reached CINCPAC headquarters it was simply routed to some junior officers, who, noticing the "information" tag, took no action except to read it, file it, and promptly forget it.

Once again, just as with the *Liberty*, the NSA had sent out a warning, and the military communications system had swallowed it up. On January 5, 1968, the unprotected *Pueblo* set sail for Korea, and eighteen days later, once again, a terrified radioman flashed a vain signal into the ether: "We need help. We are holding emergency destruction.

We need support. SOS SOS SOS. Please send assistance. Please send assistance. Please send assistance. SOS SOS SOS. We are being boarded."

By nightfall one sailor was dead, the rest of the crew captured, and America had lost its second SIGINT ship in a little over seven months. But it had actually lost even more. Within eighteen months the paperwork began, and six months later what was left of America's SIGINT fleet had been quietly decommissioned and, still later, was sold for scrap.

I have been informed that the Secretary of Defense has decided that we must terminate the operation known as Shamrock. Effective 15 May 1975 no data from this source will be processed and all activities will cease as soon as possible. The two smaller volume locations will stop operations by 16 May 1975. Their respective equipments will be removed by 26 May 1975. The larger volume location will be disestablished in a rapid manner consistent with sound security procedures.

Records and files which are revealing of the operation will be assembled and secured; destruction (other than duplicates) is prohibited at present. Personnel who have been briefed or who otherwise know of the operation will be debriefed and reminded of their continuing obligation regarding protection of the compartmented source.

Fearing exposure by a persistent press and increasingly aggressive congressional committees, NSA director Lew Allen, Jr., in a May 12, 1975, handwritten memorandum for the record, at last ended what Senate Intelligence Committee chairman Frank Church once labeled "probably the largest governmental interception program affecting Americans ever undertaken."

Slightly less than thirty years earlier, as the last pages of the Second World War were being written, Operation Shamrock had its beginnings. In August 1945, as the radioactive dust was still settling over Hiroshima and Nagasaki, those who were in charge of America's signals intelligence empire looked toward an uncertain future. The end of hostilities also brought the end of censorship and thus the end of access to the millions of cables entering and leaving the country each year. On August 15, President Truman issued a directive instructing the director of censorship to declare an end to the activities of his office. Executive Order 9031 of September 28, 1945, made the instruction formal and provided that the office should be totally abolished by November 15.

SIGINT had now reverted to the position it held following World War I, when Yardley was left to beg, borrow, or steal the needed cables. Faced with the problem this time was Brigadier General W. Preston Corderman, the redheaded chief of the Signal Security Agency. Tutored in his craft by Friedman as the second student in the infant Signals Intelligence School back in the early 1930s, Corderman knew what it meant to attempt signals intelligence without access to the cables. He felt it was of the utmost importance to establish, in some way, a very secret, very intimate arrangement with the three major cable companies in order to have access to the all important telegrams.

On August 18, 1945, therefore, Corderman sent two trusted representatives to New York City for the delicate purpose of making "the necessary contacts with the heads of the commercial communications companies in New York, secure their approval of the interception of all [foreign] Government traffic entering the United States, leaving the United States, or transiting the United States, and make the necessary arrangements for this photographic intercept work."

Their first overture, to an official of ITT Communications, met with complete failure. He "very definitely and finally refused," Corderman was informed, to agree to any of the proposals.

Next, they approached a vice president of Western Union Telegraph Company, who agreed to cooperate unless the Attorney General of the United States ruled that such intercepts were illegal.

Armed with this agreement, the two went back to ITT the next day and suggested to a vice president that "his company would not desire to be the only non-cooperative company on the project." The implication was that to refuse was to be less than patriotic, so the vice president went to see the company president about the matter. A short while later he returned and indicated that ITT would be willing to cooperate with the Agency provided that the Attorney General decided the program was not illegal.

Later the same day the two SSA officers shuttled across town to RCA corporate headquarters. With two thirds of America's cable industry already in their pocket, they met with RCA's president and asked him to join in the "patriotic" effort. The executive indicated his willingness to cooperate with the Agency but withheld his final approval until he, like the others, had heard from the Attorney General.

A few days later, as the three communications executives met with their corporate attorneys, who uniformly advised them against participating in the intercept program, the SSA officers indicated in a memorandum to General Corderman the extent of the cable companies' worry over the illegality of the program:

Two very evident fears existed in the minds of the heads of each of these communications companies. One was the fear of the illegality of the procedure according to present FCC regulations. In spite of the fact that favorable opinions have been received from the Judge Advocate General of the Army, it was feared that these opinions would not be protected. If a favorable opinion is handed down by the Attorney General, this fear will be completely allayed, and cooperation may be expected for the complete intercept coverage of this material. The second fear uppermost in the minds of these executives is the fear of the ACA which is the communications union. This union has reported on many occasions minor infractions and it is feared that a major infraction, such as the proposed intercept coverage, if disclosed by the union, might cause severe repercussions.

Within a matter of weeks, despite the fear of prosecution and the warnings of their legal advisers, all three companies began taking part in what, for security reasons, was given the code name Operation Shamrock. By September 1, 1945, even before the Articles of Surrender were signed by Japan, the first batch of cables had been secretly turned over to the Agency.

Although all three communications companies agreed to participate in Shamrock, the degree of involvement and methods of cooperation varied greatly.

ITT agreed to give the Agency access to all incoming, outgoing, and transiting messages passing over the facilities of its subsidiary, ITT Communications (now ITT World Communications). It was agreed that "all traffic will be recorded on microfilm, that all [foreign] Governmental traffic will be recorded on a second microfilm in addition to the original one, that these films will be developed by the SSA, and the complete traffic will be returned to ITT."

Western Union, however, apparently limited its cooperation initially to providing traffic only to one country and also insisted that "Western Union personnel operate the [microfilm] camera and do all the actual handling of the messages." The agreement stipulated that the SSA would furnish all the necessary cameras and film "for the complete intercept coverage of Western Union traffic outlets" not only in New York but also in San Francisco, Washington, and San Antonio. In New York, company employees selected the targeted messages and then processed them through a microfilm machine on the transmission room floor, where, at four o'clock each morning, they would be picked up by an SSA agent in civilian clothes.

Probably the most complete cooperation was that given by RCA Communications (now RCA Global), a subsidiary of the Radio Corporation of America. On October 9, 1945, W. H. Barsby, vice president of RCA Communications, notified General Corderman of his company's agreement to cooperate with his agency. To handle the necessary arrangements for the cooperation, Barsby picked William Sidney Sparks, the traffic manager and also a vice president.

As a lieutenant colonel in the Army Signal Corps Reserve, Sidney Sparks appeared to be the ideal man for the assignment. In his current position he was responsible for the company's traffic operations throughout the world and also for maintaining contacts with foreign communications companies. In addition, Sparks was thoroughly familiar with the operations of the SSA, or Arlington Hall, as he knew it. Until July 1945, he had been in charge of the War Department Signal Center, where he had worked extensively with Arlington Hall in the development of a streamlined, "packaged," militarized version of the newly developed teletypewriter.

When Sparks was first approached by the SSA in October, he was not informed that cooperation had already been approved by Barsby. Nor did Barsby ever inform Sparks of his meeting with the SSA. He assumed, then, that no higher officials within the company knew of his secret meeting with the agency's representatives.

During the meeting, the men from the Army Security Agency (changed from the Signal Security Agency on September 15) told Sparks of the continued need, in the national interest, to scrutinize traffic passing through his company. He was also told that the operation had to be conducted with the utmost secrecy because of its possible illegality. When Sparks agreed to cooperate, the ASA officers suggested that electrical connections be attached to certain tie-lines in the operations area and that these connections terminate in a secure place, where they could be monitored by ASA personnel. Sparks, however, pointed out that this would involve setting up complex repeaters, which would require twenty-four-hour expert technical attention, and that "everybody and his brother would know just exactly what we were doing and why."

The officers agreed and then suggested that RCA itself segregate and turn over to the agency the telegraph tapes originating and terminating at certain private tie-lines. Again Sparks disagreed on security grounds, saying that it would involve people going around and picking out all of those tapes and putting them away somewhere. This, he believed, would have attracted a great deal of undesirable attention, and he rejected it as infeasible.

He told the officers that probably the most secure and efficient

way to handle the problem would be to turn over to the agency all traffic entering, leaving, or transiting the company. The suggestion was music to the ASA officials' ears, and they quickly agreed.

At the time, when a message was received in the telegraph office, it came through in the form of a coded, five-hole tape, which was then put through another machine to produce a hard copy. The ASA people suggested that the hard copies of the telegrams be turned over to the agency, but here, Sparks felt, they were going too far. By reading the first inch or so of the tape, which contains the address information, they could easily determine whether or not the message would be of interest. But the officials raised the possibility of an embassy worker going outside to the telegraph company itself to send the telegram in order to avoid any possible monitoring of the embassy's communications. Still, Sparks was unconvinced, and the officials agreed to the conditions before heading back to Washington.

Sidney Sparks understood the potential consequences of his action. Should the arrangement be discovered by his superiors, he knew very well that, at the least, it would be the end of his career. But he also felt strongly that America did not exist in a vacuum and that the nation was on the verge of a different type of war, a war of nerves and of tension. "I knew in my own mind that the Cold War was heating up at this time," he later recalled. "I was impressed by it, and I was under no illusion at all that any responsible Government has to monitor, to some degree, the traffic of the other [foreign] Government agencies as far as it can get hold of them . . . I was prepared to cooperate in doing this at what I knew to be great personal risk to myself." It would be more than thirty years before Sparks learned that the burden of cooperation had already been accepted by RCA before he was ever approached.

Later that month Captain Ahern of the ASA, in charge of the New York operation, met with Sparks to go over the final details of the cooperative enterprise. The RCA executive had already made arrangements with the company's real estate office to take over additional space near the telegraph office on New Street. Then he went down to the real estate manager, picked up the key, and brought it back to the captain.

Sparks told Ahern that he had already informed his six supervisors, who rotated on shifts in the telegraph office, of the operation, and the superintendent of the telegraph office as well. The procedure, he explained, was that every night close to midnight, near the end of the shift, a supervisor would pick up the tapes of the day's traffic and place them in a secure location to be picked up by the ASA

people, who would take them to their own office for sorting. After selecting the ones of interest, they would transmit copies of the telegrams to another ASA office in midtown New York and then, presumably, to Arlington Hall. After they had finished with the tapes, according to the agreement, the tapes were to be returned to the telegraph office for destruction.

The procedure appeared acceptable to both sides, and within a few days Operation Shamrock had begun. The ASA people would arrive each morning in civilian clothes between the hours of three and five and begin the job of sorting. The fact that they were in the military, however, was an open secret, since they arrived each day in a military green vehicle and constantly referred to each other as "sergeant" and "corporal."

Within less than a year, the restrictions on hard copies had fallen by the wayside, and the ASA began receiving full, complete copies of each and every telegram — regardless of whether it was to or from an American citizen, a corporation, or an embassy — which they were at liberty to keep or destroy. In addition, Shamrock was not limited to the borders of New York. ASA personnel in both Washington and San Francisco made daily pickups of traffic from all three communications companies, and, in San Antonio, an Army signal officer from Fort Sam Houston was charged with picking up the messages from the local Western Union office each day.

By March of 1946, with Shamrock fully underway, both Western Union and RCA again expressed concern over the illegality of their participation. This concern, increased because of the apparent lack of any approval by the Attorney General, was relayed to General Dwight David Eisenhower, the Army chief of staff, by the head of ASA:

It can be stated that both [Western Union and RCA] have placed themselves in precarious positions since the legality of such operations has not been established and has necessitated the utmost secrecy on their part in making these arrangements. Through their efforts, only two or three individuals in the respective companies are aware of the operation.

In a somewhat feeble effort to pacify the nervous executives, Eisenhower later that month forwarded to each of them a formal Letter of Appreciation.

Again, throughout 1947, the fear of criminal prosecution continued to hound the executives of all three companies. They were now demanding assurances, not only from the Secretary of Defense and the

Attorney General, but also from the President himself, that their participation was in the national interest and that they would not be subject to prosecution in the federal courts. To ease their concern, Secretary of Defense James Forrestal asked them to meet with him on Tuesday, December 16, 1947. It was an extraordinary meeting, attended by Sosthenes Behn, chairman and president of ITT, and General Harry C. Ingles, president of RCA Communications. Joseph L. Egan, president of Western Union, was invited but could not attend.

At the meeting, Forrestal, telling the group that he was speaking for President Truman, commended them for their cooperation in Operation Shamrock and requested their continued assistance, "because the intelligence constituted a matter of great importance to the national security." Forrestal then said that "so long as the present Attorney General [Tom C. Clark] was in office, he could give assurances that the Department of Justice would also do all in its power to give the companies full protection." One official was still unclear as to Shamrock's level of authorization, however, and asked Forrestal if he was speaking not just for the Office of Secretary of Defense, but in the name of the President of the United States. Mr. Forrestal replied that he was.

With an eye to the national elections, coming up in less than a year, Forrestal made it clear that "while it was always difficult for any member of the Government to attempt to commit his successor, he could assure the gentlemen present that if the present practices were continued the Government would take whatever steps were possible to see to it that the companies involved would be protected."

The next month, Western Union president Joseph L. Egan and the company's operating vice president were briefed on the December meeting.

Forrestal's assurances that Shamrock had the full backing of the President as well as the Attorney General appeared to satisfy the three for the time being, but there was no guarantee just how long this would last. Almost out of desperation, therefore, the Defense Secretary decided to reveal the existence of Shamrock to a few selected members of Congress in an attempt to obtain legislation that would at last put to rest the legal worries of the communications companies.

In early June 1948, several members of Forrestal's staff met secretly with Senate Judiciary Committee chairman Alexander Wiley and Representative Earl Cory Michener, chairman of the House Judiciary Committee, and quietly informed them of the administration's delicate, unwritten agreement with the three communications companies. They

were asked to introduce legislation in their respective committees to relax Section 605 of the Communications Act of 1934, which prohibited the interception of communications. The proposed amendment to the act would authorize the President to designate certain agencies to obtain the radio and wire communication of foreign governments. This would have had the effect of giving legal sanction to the Shamrock operation as originally conceived. Once the meeting ended, the Defense Department representatives again reminded the senator and the congressman of the top secret nature of the information that had just been revealed.

On June 16, in a closed-door executive session, the Senate Judiciary Committee considered and approved the bill, but the support was less than unanimous. Because of this, the committee voted to leave to the chairman's discretion whether or not to release the bill to the Senate floor. At this point Forrestal's representative interceded and effectively killed the bill by telling the committee that "we [do] not desire an airing of the whole matter on the Floor of the Senate at this late date in the session." Even without the passage of the bill, Forrestal was happy with the vote of confidence from the committee. As one of the Pentagon officials explained, they "thought a great deal had already been accomplished and that the administration had sufficient ammunition to be able to effect a continuation of the present practices with the companies."

Among the promises Forrestal made to the communication companies' executives in the December meeting was that Congress would consider in its forthcoming session legislation that would make it clear that such activity was permissible. He never promised them, however, that such legislation would pass. As a result, no further attempts were ever made to authorize Shamrock by statute. If the activity was to continue, it would have to continue both secretly and illegally.

A little more than nine months after the Judiciary Committee's hearing, on March 28, 1949, James V. Forrestal resigned from office and within less than a week he was admitted to Bethesda Naval Hospital, suffering from severe depression, anxiety, and acute paranoia. He believed he was the victim of "plots" and "conspiracies" and talked of unidentified people "trying to get me." For the next seven weeks, Forrestal underwent treatment for what his doctor described as involutional melancholia psychosis.

In the early morning hours of Sunday, May 22, Forrestal sat alone in his hospital room, copying onto sheets of paper the brooding lines from Sophocles' Ajax. "No quiet murmur like the tremulous wail,"

he wrote, "of the lone bird, the querulous night—" The word night-ingale was left unfinished. Forrestal walked across the hallway into a small kitchen, tied one end of his dressing gown sash to a radiator just beneath a window, and knotted the other end around his neck. Seconds later, his body plunged from the hospital's sixteenth-floor window.

Among those stunned by Forrestal's death were the company chiefs he had secretly assured fifteen months earlier. On hearing of Forrestal's resignation and hospitalization, they had sought a renewal of the assurances against prosecution from his successor, Louis Johnson. On Wednesday, May 18, 1949, only four days before Forrestal's suicide, Johnson met with these officials and stated that President Truman, Attorney General Tom Clark, and he endorsed the Forrestal statement and would provide them with a guarantee against any criminal action that might arise from their assistance.

Confirming the fact that the knowledge of Shamrock went well beyond the Office of Secretary of Defense were two handwritten notes penned on the memorandum of the meeting. One approval bore the initials T.C.C., those of Attorney General Tom C. Clark; the other, signed by Secretary Johnson, stated, "OK'd by the President and Tom Clark,"

The May 18 meeting was the last time any of the companies ever sought assurances against prosecution from the government.

In 1949 when the ASA changed into the Armed Forces Security Agency it inherited Shamrock, which three years later became the stepchild of the newborn National Security Agency. Taking over the New York operation in 1950 from Captain Ahern was a former master sergeant named Joseph Wolanski. In 1956, NSA's Bob Sage became the local man. From the very inception, however, the person in charge of the New York agents was a mysterious Mr. Feeney.

The first major change in Shamrock did not take place until early 1963, when NSA was notified by RCA Global that it was getting ready to switch from the old system of paper tapes and hard copies to a revolutionary computerized system in which all incoming and outgoing messages were recorded on round magnetic journal tapes.

Unknown to all but a handful of spooks at NSA, the change in technology was also about to enable America to make a quantum leap forward in its ability to snoop. By the time RCA's new computer telegraph system was in full operation the following year, NSA's Harvest computer was ready for it. Now, instead of sorting manually the daily batches of hard copies and paper tapes in the NSA room

at RCA, couriers would simply pick up the ten to twelve tape disks each morning, fly them down to Fort Meade to be copied, and, with luck, get them back to New York the same day.

Once copied, the tapes would be run through Harvest, which could be programmed to "kick out" any telegram containing a certain word, phrase, name, location, sender or addressee, or any combination. It might be a name from a watch list, any message containing the word demonstration, or any cable to or from the Israeli UN delegation. In microseconds the full text of any telegram containing selected material could be reproduced. America's Black Chamber had suddenly gone from Yardley to Orwell.

The following year, ITT World Communications also converted to magnetic tapes, and by 1966 the cost and logistics of the NSA courier operation was beginning to worry the man in charge, Dr. Louis Tordella. From his earliest days as deputy director, Tordella took personal charge of every detail of the operation. So secret was Shamrock that, besides Tordella and the various directors, only one lower-level managerial employee had any responsibility for the program. Both were instructed to report directly to Tordella if any problems arose with the communications companies. Below the program manager were the couriers.

What must have worried Tordella constantly was the ever-present risk of losing the tapes in the process of transporting them between New York and NSA and back to New York. A plane crash or simple carelessness; it really didn't matter. If for any reason the original tapes were lost or destroyed, it would almost certainly mean the end of the operation. So on August 18, 1966, a hot Thursday in Washington, Tordella met with Thomas Karamessines, then the CIA's acting deputy director of Plans, and requested the CIA's assistance in setting up a small cover office in downtown Manhattan. Tordella explained that NSA needed the "safe" space so that NSA employees could copy the international communications received from the commercial carriers.

The CIA agreed, and in November, after assigning the cryptonym LPMEDLEY to the operation, settled NSA in a commercial office building in lower Manhattan under the guise of a television tape-processing company.

After almost seven years of sinful cohabitation, however, the NSA was evicted. Unlike NSA, the CIA has a charter, which subjects it to legal dos and don'ts. One of the don'ts is a prohibition against conducting operations within the United States, so when the CIA's general counsel, Lawrence Houston, discovered the illicit hideaway, he sent

the tape processors packing. Tordella was told that Houston was "concerned about any kind of operation in which the CIA was engaged in the continental United States." According to Tordella, the words were short and sweet: "Get out of it."

Undeterred as well as unencumbered by similar legal restraints, Tordella quickly found other suitable accommodations in Manhattan, and Shamrock continued.

In Washington, Shamrock had begun life under slightly different circumstances. Faced with ever-increasing threats posed by Japan and Germany in the months preceding Pearl Harbor, FBI director J. Edgar Hoover began working with the Justice Department on a proposed executive order that would permit the Bureau to obtain necessary cable traffic from the private telegraph companies. Before the order could be completed, however, Pearl Harbor was attacked.

Congress, acting with uncharacteristic swiftness, enacted the censorship law, and on December 22, 1941, the Solicitor General told the Bureau that the proposed executive order would no longer be necessary, since the newly created Office of Censorship would have full authority over international communications, and the FBI could obtain any that it needed from that office.

While all this was taking place, though, the Bureau was moving ahead on its own. Shortly after December 7, Hoover was asked by the State Department to request the cable companies to hold up the transmission of messages to certain countries for twenty-four hours, and then to make copies of the cables so that they would be available for review. The request was made, and the companies all agreed without a fight. Hoover notified the Attorney General that the program had begun.

A short time later, the Censorship Office, under an agreement worked out with the Bureau, began sending to the FBI copies of those messages which it felt might pertain to national defense. But the arrangement proved unsatisfactory, and the Bureau expanded its own "drop copy" program over the following five years. By the fall of 1946, the FBI was covertly obtaining, directly from the cable companies, cable traffic to and from some thirteen countries.

Following the war, and under the secret agreements worked out by the SSA with the cable companies, the FBI acted as a go-between, picking up copies of cable traffic to and from the various Washington offices and forwarding about half of it to NSA while keeping the rest for itself. At RCA the local FBI man would make his daily pickup in mid to late morning. By then, the requested telegrams had already been sorted out by the company's chief bookkeeper, who received

the modest sum of \$50 per month for her services (increased to \$100 in 1965). Welcome as the secret payments were, they did present a bit of a problem when it came to income tax time. One could hardly list "secret FBI payments" on a tax form. To resolve this problem, the Bureau, in 1966, began withholding 20 percent for income tax purposes, then reviewed the 1040 at the end of each year in order to make appropriate changes, which took the form of IRS credits and adjustments for the deductions.

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Besides the change in technology in the early 1960s, there was another development that had an even more significant effect on the future of NSA operations. When Robert F. Kennedy entered the Justice Department as Attorney General in 1961, he brought with him a suitcase full of leftover business from his days on the Senate subcommittee investigating racketeering and turned organized crime into Public Enemy Number One. But where crime had no problem organizing, the investigators did.

"When we got there we found that there was no central repository for information concerning individuals with a known criminal background," recalled Herbert J. Miller, Jr., chief of Kennedy's Criminal Division. "IRS would have information, SEC would have information... and there were some... twenty-nine or thirty investigative agencies that gathered intelligence." Kennedy's idea was to bring all of those resources together for the first time and exchange known information. His vehicle was a small "intelligence unit," set up in the department's Organized Crime Section, that essentially, according to Miller, "consisted of a filing system which correlated all of the information the federal government had on organized racketeering. Suppose Al Capone was still operational in those days," Miller said; "we'd find out what every one of the investigative agencies knew about Al Capone and put it in one file instead of each of them having a piece of information."

One of the first courses of business, therefore, was the establishment of a watch list of leading racketeers, which was distributed throughout the interested agencies, among them the NSA. Starting in 1962, the Criminal Division began sending to NSA the names of hundreds of racketeers, requesting any information about them that the Agency might have or might obtain in the future. The resulting intelligence secretly contributed to numerous prosecutions.\*

<sup>•</sup> In Robert Kennedy and His Times (Boston: Houghton Mifflin, 1978, at p. 267), noted historian Arthur M. Schlesinger, Jr., writes:

A second area of major concern for the Kennedys was Cuba. Just as the Criminal Division sent the NSA its lists of racketeers, the FBI began submitting to NSA the names of U.S. citizens and business firms that had dealings with Cuba. In turn, the NSA provided the FBI with intelligence on American commercial and personal communications with Cuba gleaned from Shamrock and the interception of international telephone calls.

In an effort to find ways for the FBI to make better use of the NSA intercepts on Cuba, a meeting in May 1962 was set up between Raymond Wannall, chief of the Bureau's Nationalities Intelligence Section of the Domestic Intelligence Division, and officials of the Puzzle Palace. "Of the raw traffic now available," wrote Wannall in a memo following the meeting, "the material which would be most helpful to us would consist of periodic listing of firms in the U.S. which are doing business with individuals in Cuba and the Cuban government . . With regard to personal messages, we feel that those relating to individuals travelling between Cuba and the U.S. would be the most significant . . . We will furnish NSA a list of persons in whom we have an investigative or an intelligence interest."

Now, for the first time, NSA had begun turning its massive ear inward toward its own citizens. To Harvest would now go Miller's reincarnated Al Capone as well as Vito Genovese and Meyer Lansky and most likely Jimmy Hoffa. Snatched from the air and cables would be the messages and telephone calls of Cuban relatives separated by miles and ideology, of American businessmen and union officials.

With no laws or legislative charter to block its path, the car continued to turn. What racketeers and Cuba were to the Kennedys, protesters and drug dealers were to Presidents Johnson and Nixon. The systematic inclusion of American names and organizations in NSA's watch lists, which began in 1962, took a major swing upward in 1967. On October 20 of that year, Major General William P. Yarborough, the Army's assistant chief of staff for Intelligence, sent a TOP SECRET COMINT CHANNELS ONLY message to NSA director Marshall Carter, requesting that NSA provide any available information about possible foreign influence on civil disturbances in the United States.

For the first time all the federal groups that knew anything about the underworld came together in the same room and exchanged information.

Kennedy gave the job of coordination not to the FBI but the department's Organized Crime Section. There researchers compiled a roster of leading racketeers, circulated the list among the investigative agencies, and used the result as the basis for prosecutions.

I would appreciate any information [the Yarborough message said] on a continuing basis covering the following:

- A. Indications that foreign governments or individuals or organizations acting as agents of foreign governments are controlling or attempting to control or influence the activities of U.S. "peace" groups and "Black Power" organizations.
- B. Identities of foreign agencies exerting control or influence on U.S. organizations.
- C. Identities of individuals and organizations in the U.S. in contact with agents of foreign governments.
- D. Instructions or advice being given to U.S. groups by agents of foreign governments.

To one senior NSA official, the receipt of such a request was "unprecedented . . . It is kind of a landmark in my memory; it stands out as a first."

Pressured by the White House, the FBI, and the Attorney General, who were growing increasingly nervous over the mounting civil unrest in the country, the Department of the Army established a civil disturbance unit and assigned Yarborough to direct its operations. Among Yarborough's most immediate worries was the massive March on the Pentagon, which was scheduled to take place the day following his message to Carter.

According to the Yarborough message, "the 'big' question" was "determining whether or not there is evidence of any foreign actions to develop or control these anti-Vietnam and other domestic demonstrations."

The day after receiving the message, Carter sent a cable to Yarborough, DCI Richard Helms, and each member of the USIB, informing them that the NSA was "concentrating additional and continuing effort to obtain SIGINT" in support of the Army request. Nevertheless, despite this notification that NSA's domestic watch list effort was about to be greatly expanded, there is no record that the matter was ever discussed at a USIB meeting nor that the USIB ever validated a requirement for monitoring in support of the civil disturbance unit.

As the Army began sending over its pages of protesters' names, other agencies did the same — some individually, some on preprinted forms, and some simply over the telephone.

The Secret Service delivered a watch list containing names of individuals and organizations active in the antiwar and civil rights movements, presumably believing that picking up their phone calls and messages might in some way help protect the President.

The CIA was interested in "the activities of U.S. individuals in

either civil disorders, radical student, or youth activities, racial militant activities, radical antiwar activities, draft evasion/deserter support activities, or in radical related media activities, where such individuals have some foreign connection." The FBI and the DIA followed suit.

The names on the various watch lists ranged from members of radical political groups to celebrities to ordinary citizens involved in protest against their government. Included were such well-known figures as Jane Fonda, Joan Baez, Dr. Benjamin Spock, Dr. Martin Luther King, Jr., the Reverend Ralph Abernathy, Black Panther leader Eldridge Cleaver, and Chicago Seven defendants Abbie Hoffman and David T. Dellinger.

A frightening side effect of the watch list program was the tendency of most lists to grow, expanding far beyond their original intent. This multiplier effect was caused by the inclusion of names of people who came in contact with those persons and organizations already on the lists. Because of NSA's vacuum cleaner approach to intelligence collection — whereby it sucks into its system the maximum amount of telecommunications and then filters it through an enormous screen of "trigger words" — analysts end up reviewing telephone calls, telegrams, and telex messages to and from thousands of innocent persons having little or nothing to do with the actual focus of the effort. Thus, if an organization is targeted, all its members' communications may be intercepted; if an individual is listed on a watch list, all communications to, from, or even mentioning that individual are scooped up. Captured in NSA's net were communications about a peace concert, a communication mentioning the wife of a U.S. senator, a correspondent's report from Southeast Asia to his magazine in New York, and a pro-Vietnam War activist's invitations to speakers for a rally.

Focal point in the Agency for the watch lists was Juanita Moody, the consumer staff liaison officer. Moody quit college in 1943 to enlist in the Army's Signal Security Agency as a clerk and over the decades ascended the cryptologic ladder in NSA's Production Organization.\* Known internally as PO<sub>5</sub> (PROD's fifth staff element), the consumer staff liaison officer serves as the Agency's principal point of con-

<sup>\*</sup> Moody retired in February 1976 and on December 16, 1977, during a ceremony held at CIA headquarters, CIA director George Bush presented her with the first National Intelligence Medal of Achievement. The award, one of three awards conferred by the director of Central Intelligence at the recommendation of the National Foreign Intelligence Board (formerly the USIB), honors the recipient for service to the entire intelligence community. Following the recommendation of Lieutenant General Lew Allen, Jr., Moody was presented with the medal "in recognition of exceptional service to the intelligence community." ("Juanita M. Moody Honored by CIA, Receives National Intelligence Medal," National Security Agency Newsletter [February 1977], page 4; "Postscripts," National Security Agency Newsletter [August 1977], page 14.)

tact with the rest of the intelligence community. On receiving the watch lists, she would forward most of them to Frank Raven, chief of PROD's G Group, which was responsible for processing SIGINT from all non-Communist areas of the world, including the United States.

A 1934 graduate of Yale, Raven had been analyzing ciphers and breaking codes since before Pearl Harbor. In 1940, as a newly commissioned Navy ensign, he was assigned to be the Navy's bagman with the telegraph companies. "An official would leave the stack of traffic on a desk and then go to lunch," Raven recalled. "I would have to pick up the traffic, take it to the Navy Building for copying, and then get it back before they came back from lunch." This way, he said, the official could deny any knowledge of the operation. Following the SIS victory over Purple, Raven added the crowning touch by discovering, in effect, the "key to the keys" of the system, thus enabling the United States to shear away the code more rapidly than the Japanese code clerks themselves. In the 1950s he took charge of the Russian military and medium-level cipher systems as chief of GENS, before he became head of G Group in the early 1960s.

Deputy chief of G Group during the late 1960s and early to mid-1970s was Mary (Polly) Budenbach, a graduate of Smith College who began her career as a novice analyst in World War II.

As the watch list requests began pouring in during the late 1960s and early 1970s, Raven's problems mounted. He was well aware that NSA's mission was supposed to be limited strictly to foreign intelligence, yet the names and organizations passing across his desk in swelling numbers were going farther and farther over the line.

In May 1968, one month after the Memphis assassination of Dr. Martin Luther King, Jr., a frustrated FBI was still unable to locate the man they believed responsible, James Earl Ray. A proposal was made to institute both wiretap and microphone surveillance against the brother and sister of the suspect at their homes as well as at their business, the Grapevine Tavern. At the time, however, Attorney General Ramsey Clark was strongly opposed to all electronic eavesdropping, with the exception of a few very narrow national security areas. Also, a number of recent Supreme Court decisions placed strict limitations on the techniques. Finally, an internal FBI memo suggested that such actions would probably be unconstitutional, and the idea was eventually dropped.

Nevertheless, Frank Raven received a direct order to place Ray's name, along with about a dozen of his aliases, on the watch list. But what was so unusual about the request was that it came not from

the FBI nor the Justice Department, but directly from the office of Secretary of Defense Clark M. Clifford, though Clifford himself has no memory of such a request. "I tried to object to that on constitutional grounds as to whether or not it was legal—as to whether or not we should do it," Raven recalled, "and I was told at that time that you couldn't argue with it—it came from the highest level." But the NSA search apparently turned up little, and Ray was eventually picked up in London on June 8, 1968. "We just wasted computer money on that one," Raven concluded. "It didn't cost NSA a dollar that they wouldn't have spent anyway, but it probably bumped out three or four other problems which were, in my opinion, more important."

The existence of NSA's involvement in the James Earl Ray investigation seems to have been one of the Agency's best-kept secrets. Not only were the NSA's actions never revealed in any subsequent court proceedings involving Ray; they were apparently never revealed even to the House Assassinations Committee, which spent months attempting to examine every detail of the murder.

Although some of the watch list names arguably could fall in the large gray area between foreign and domestic intelligence, others, said Raven, were downright "asinine." "When J. Edgar Hoover gives you a requirement for complete surveillance of all Quakers in the United States, when Richard M. Nixon is a Quaker and he's the President of the United States, it gets pretty funny." What caused the Quakers to be sucked into NSA's vacuum cleaner, apparently, was Hoover's belief that the religious group was shipping food and supplies to Southeast Asia.

The conflict over how to handle the flood of questionable watch lists streaming into NSA was becoming more and more divisive. "There's one school of thought that argues that when a customer levies a requirement on NSA, you note it [and] you try to give him whatever you can on the subject," Raven pointed out. "That doesn't necessarily mean you're going to do anything, but you will note any requirement that comes in from a consumer — the Army, the FBI, or CIA, or things of that sort." But then there was the other side of the issue:

The other school of thought was the school of thought of G Group, which was that if you consider a requirement coming in to be illegal or out of line or you can't do it for any reason — you simply don't have the resources... you tell the customer square to his face that we thank you for your requirement but we're sorry we can't do it because we don't have the resources; it's outside of our mission; it's outside of our

authorization; or what have you. Now how to handle these two questions is a very major policy fight — and you can argue who's right and who's wrong even today — I don't know . . . You see Juanita Moody was of the school, right or wrong, that you just note it and file it — don't stir the customer up. We were of the opinion that if it were obviously an asinine requirement, or we weren't going to do anything about it, we would tell the guy.

TARGETS

As a result, Raven would note in a memo to Moody that G Group was planning to disregard various watch list entries, and Moody, according to Raven, would occasionally send the memo on to the customer but most often would not.

Once Moody passed the latest watch list additions on to G Group, they would be incorporated into various "scan-guides," which would be used by the analysts to pick out the requested information. According to Raven, "A scan-guide is: in the traffic which you are reading, report any reference to [for example] Secretary of State Haig. You don't go out and do any intercept . . . but in the [traffic] that you are processing, if you see any reference to Haig, either favorable or unfavorable, you report them to somebody in the State Department."

The scan-guides would then be distributed to the various offices in G Group, such as G1, G2, G3, and so forth, each of which would cover a specific geographic area—the Middle East, Africa, South America, or another area.

From the very beginning, the domestic watch list program was treated within the Puzzle Palace with the strictest secrecy. Any message containing watch list material was stamped TOP SECRET and HANDLE VIA COMINT CHANNELS ONLY, and also bore the code word Trine (later Umbra), indicating that the material was in the highest of the three COMINT categories. On top of that, a second code word was added, placing the message in the same category as the most sensitive Soviet intercepts. This was in the Gamma series, which included such hush-hush programs as the interception of radiotelephone communications to and from the limousines of senior Soviet officials, code-named Gamma Gupy.

Despite this tight security, however, the civil disturbance watch list program became even more restricted and compartmented on July 1, 1969, when it received its own code word and charter:

## CHARTER FOR SENSITIVE SIGINT OPERATION MINARET (C)

1. MINARET (C) is established for the purpose of providing more restrictive control and security of sensitive information derived from communications as processed... which contain (a) information on foreign

governments, organizations, or individuals who are attempting to influence, coordinate, or control U.S. organizations, or individuals who may foment civil disturbance or otherwise undermine the national security of the U.S. An equally important aspect of MINARET will be to restrict the knowledge that information is being collected and processed by the National Security Agency.

- 2. MINARET specifically includes communications concerning individuals or organizations, involved in civil disturbances, antiwar movements/demonstrations and Military deserters involved in the antiwar movements . . .
- 3. MINARET information will not be serialized, but will be identified for reference purposes by an assigned date/time. Information will be classified TOP SECRET, stamped "Background Use Only," and addressed to named recipients. Further, although MINARET will be handled as SIGINT and distributed to SIGINT recipients, it will not . . . be identified with the National Security Agency. [Emphasis added.]

Accompanying the Minaret charter was a brief approval message signed by an assistant NSA director, most likely Major General John Morrison, head of PROD. Until 1969, only the intercepted communications that were specifically between two Americans received such special treatment. Now, with the adoption of Minaret, all communications to, from, or mentioning an American were so classified.

What made Minaret so sensitive was not the importance of the intelligence; far less security was afforded much more important Soviet intercepts. Minaret became ultrasensitive only because it bordered on illegality and therefore had to be masked to shield the Agency. Removed from the messages were any indications that they had originated within the Puzzle Palace, even the HANDLE VIA COMINT CHANNELS ONLY caveat that accompanies virtually everything leaving the Agency related in any way to SIGINT.

Also with the charter came more formal procedures for submission of the names. No longer could one simply pick up a scrambler phone and call a GG-12 in PROD and have a name added. All submissions now had to be in writing and were subject to a tighter chain of command. Said one senior NSA official, "From 1969 on [the watch list] was handled in a very careful, reviewed, and systematic way."

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"I consider keeping dangerous drugs out of the United States just as important as keeping armed enemy forces from landing in the United States... We are going to fight this evil with every weapon at our command." On October 24, 1969, President Nixon designated

international narcotics control a concern of U.S. foreign policy and established the White House Task Force on Heroin Suppression. Members included representatives from the White House staff, State Department, Treasury, Bureau of Narcotics and Dangerous Drugs (BNDD), and the Department of Defense. Also named was DCI Richard Helms, who was instructed by the President "to contribute to the maximum extent possible." His contribution consisted of establishing an Office of Narcotics Coordinator under the agency's Deputy Directorate of Plans (now the Deputy Directorate of Operations), which provided the task force with narcotics intelligence reports and studies concerning trafficking in Turkey and Southeast Asia, as well as any European connections between Latin American traffickers and Turkish opium suppliers.

A second responsibility of the office was to act as liaison with other agencies on narcotics problems. This the CIA took quite seriously, and within a short period of time the ONC was supplying the BNDD with training, was lending it "flash rolls" for overseas operations, and was providing it with sensitive intelligence reports. These included OO Reports, compiled by the Domestic Collection Division exclusively from interviews of people who had traveled to foreign countries; analytical reports, such as one entitled "Cocaine Trafficking Network in Colombia"; and the Director of Operations Narcotics Control Reports (DONCS), which were sent directly to BNDD's chief of Strategic Intelligence.

Most important, however, the CIA, probably through its Division D, also began conducting overseas interceptions specifically for the collection of international narcotics intelligence. When this activity produced information concerning the narcotics-trafficking activities of U.S. citizens, however, the local CIA officer would reportedly bow out, surrendering his information to his local BNDD counterpart, who would continue the investigation, most likely with similar, NSA-supplied eavesdropping equipment.

Pleased as the Bureau was to receive the CIA's help, there was one flaw in the arrangement. The CIA was forbidden by law from conducting eavesdropping operations within the United States. This presented a major problem for the BNDD, since a large portion of the traffickers it was interested in operated, at least a large part of the time, within the United States. One particularly frustrating case involved information it had received indicating that arrangements for certain South American drug deals were being conducted by telephone from a booth in New York's Grand Central Station.

Because the CIA was forbidden from monitoring domestic tele-

phone conversations and also because, under the law, BNDD felt that it could not tap public telephones, BNDD director John E. Ingersoll turned to an agency that had, from its birth, never been handicapped by such mundane considerations: the NSA. In fact, Roy Banner, the Agency's top lawyer for many years, had secretly helped draft the wiretap legislation contained in the 1968 Omnibus Crime Control and Safe Streets Act, making sure to insert an inconspicuous loophole for NSA's operations. In a July 24, 1968, memorandum, Banner boasted of the coup, telling his director that the effect of the NSA-added exception to the act (§2511(3)) "is to remove any doubt as to the legality of the SIGINT and COMSEC activities of the Executive Branch of the Government." He then added that the language of the law "precludes an interpretation that the prohibitions against wiretapping or electronic surveillance techniques in other laws applies to SIGINT and COMSEC activities of the Federal Government."

In early April 1970 an official from BNDD journeyed up to Fort Meade and met with Deputy Director Tordella, who assured the official that NSA could handle the bureau's request to start a watch list and even fulfill its requirement for coverage of the public pay phones in Grand Central. On April 10, Director Ingersoll dispatched a memorandum to Director Gayler, thanking him for Tordella's help and attaching a general statement of his bureau's watch list requirements.

After first establishing the fact that BNDD's "primary responsibility . . . is to enforce the laws and statutes relating to narcotic drugs, marihuana, depressants, stimulants, and the hallucinogenic drugs," the memorandum went on to list the bureau's requirements:

- 1. The BNDD has a requirement for any and all COMINT information which reflects illicit traffic in narcotics and dangerous drugs. Our primary interest falls in the following categories:
  - a. organizations engaged in such activities
  - b. individuals engaged in such activities
  - c. information on the distribution of narcotics and dangerous drugs
  - d. information on cultivation and production centers
  - e. international agreements and efforts to control the traffic in narcotics and dangerous drugs
  - f. all violations of the laws of the U.S. concerning narcotics and dangerous drugs.
- 2. To assist NSA in the selection of pertinent COMINT information, the BNDD will provide a list of organizations and individuals with a history of illicit drug activities. This Watch List will be updated on a monthly basis and any additions/deletions will be forwarded to NSA.

Any COMINT information developed on these individuals/organizations should be brought to the attention of the BNDD. [Emphasis supplied.]

Instituting the BNDD's watch list was no simple matter, according to Frank Raven, who, as chief of G Group, was responsible for processing the traffic. "That requires special intercept. That requires covering telephone circuits from New York to Venezuela," he recalled. Although processing data communications on that link was quite economical, not so the telephone circuits. "Not voice," according to Raven. "We don't have that kind of resource. I mean, these people have the idea that NSA covers all the communications in the world — they don't cover a tenth of one percent of the communications in the world. As a matter of fact, that's probably a high estimate."

With the implementation of the BNDD watch list and special domestic targeting requirements, the NSA had taken its most dangerous step. Not only had the Agency clearly begun supporting domestic law enforcement agencies; it was also preparing to begin the specific targeting of American citizens within the United States. Until then, all intelligence provided through the Minaret program had been "byproducts," information on watch-listed persons picked up during the course of monitoring foreign targets for foreign intelligence collection. The giant ear had suddenly turned directly inward.

By June the first watch list intercepts began flowing to the BNDD, and in September the special domestic targeting had begun. Initially, the monitoring was conducted from one NSA intercept site, but in December 1970 that station was closed. The operation began again in March at an NSA East Coast facility operated by the military, probably the Naval Security Group listening post just outside the little town of Northwest, Virginia, a swampy, snake-infested site bristling with \$10 million worth of antennas. In 1975 the Security Group moved from the fourteen-hundred-acre site on the Virginia–North Carolina border to Sugar Grove, West Virginia.

Although only six South American cities, in addition to New York and Miami, were of primary interest in the drug monitoring, this is somewhat misleading, since these are transit points: calls are routed through them to other cities. For example, by monitoring one New York-South American city link, NSA could pick up calls from other South American cities to other cities in the United States. The calls, once received either at the Etam or Andover earth station, would simply be routed through New York City to other United States destinations. Likewise, a call from St. Louis to Caracas will likely go first to New York and then be transmitted down to Etam. In all, NSA

monitored nineteen separate United States-South American links for voice traffic at the two sites between 1970 and 1973.

Though the procedures NSA set up for Minaret and the drug monitoring were, at times, quite informal, the normal method by which the Agency sets targets and priorities is standardized and formal.

Of all the superclassified documents within the Puzzle Palace, few come close to matching the secrecy of the one known as the IGCP. Instituted about 1966, and possibly standing for Intelligence Guidelines for COMINT Priorities, the IGCP is NSA's bible for targeting. Prepared by an IG staff made up of representatives of the member agencies of the intelligence community, and issued by the DCI in his role as chairman of the USIB, the document provides the NSA director with specific priorities and guidelines for the NSA's overall SIGINT collection responsibilities.

In the IGCP, the world is divided into numerous "subelements." Western Europe, for example, is Subelement 27; other Asian countries (such as India), are 24; Latin America is 26; the Middle East and North Africa are 28; and the sub-Saharan countries are 29.

Listed directly below each subelement are the various methods of SIGINT collection. Interception of international commercial communications, for example, such as telephone, telegram, and telex, is identified as Group B. Another group, most likely Group A, is for foreign internal communications. Finally, listed numerically under the groups are the specific NSA targets, known as "line items." A line item may be a requirement for all information relating to weapons systems or military construction. In addition to identifying the specific target, the line item also includes information on when the desired information is needed, such as "within 48 hours after recognition," and the information's level of completeness. Level 1, for example, would be the most complete.

As a general rule, when an agency submits a new requirement to NSA that falls within an existing line item, like additions to a watch list, and does not require additional resource allocations, NSA would normally honor that requirement without further review. However, when in NSA's view a new requirement does necessitate additional collection or processing efforts, or constitutes a significant change in scope, completeness, or time specification of an existing line item, then the requesting agency would be informed that it must first submit the requirement for approval to the IG staff. Once it is approved, the IG staff would submit it to the SIGINT Committee, one of the USIB's three intelligence committees. This committee, always chaired by the NSA director, would then approve the changes in the IGCP

as appropriate, unless further action by the USIB is required.

But a serious problem with the document was that many of the requirements listed were far too broad to be of much assistance to the analysts sifting through the reams of intercepted traffic. The Army at one point, for example, simply asked for "all information on the veneral disease rate in East Germany," because it might reflect on the capabilities of the East German troops. One of the major critics of the IGCP was Frank Raven, who labeled it "a worthless piece of paper." "The first priority would be as to whether or not the Russians are going to attack you," said Raven. "Well, you would be astonished by the things that you can justify under evidence of a Russian attack." One of those requirements called for reporting the disappearance of any senior Communist official - but never specified what was meant by a "disappearance." "We were required to report this worldwide within something like fifteen minutes. Now you report within fifteen minutes that Brezhnev is missing — but at what point is he missing? . . . Hell, if he goes to the john, he's disappeared!"

When BNDD's John Ingersoll submitted his bureau's drug watch list to NSA in April 1970, no line item existed for international narcotic trafficking. Nevertheless, NSA began processing this intelligence without first going through the normal USIB procedures. The Agency did informally notify the IG staff of the program, but advised it "that such effort should not be given visibility."

Declaring that drug abuse had grown to crisis proportions and that it was "imperative that the illicit flow of narcotics and dangerous drugs into this country be stopped as soon as possible," President Nixon, in August 1971, upgraded the priority of the drug control effort. In a memorandum to Secretary of State William Rogers, he disbanded the White House task force and directed the establishment of the Cabinet Committee on International Narcotics Control (CCINC), naming as members the Secretaries of State, Defense, and Treasury, the Attorney General, the director of Central Intelligence, and the ambassador to the United Nations.

The major objective of the CCINC was the "formulation and coordination of all policies of the Federal Government relating to the goal of curtailing and eventually eliminating the flow of illegal narcotics and dangerous drugs into the United States from abroad." Named as executive director of the committee on September 7 was Egil (Bud) Krogh, Jr., who, under his other hat as head of Nixon's leak-plugging "plumbers' unit," had approved the infamous burglary of Daniel Ellsberg's psychiatrist's office, conducted only three days earlier.

One of Krogh's first actions was to appoint an Intelligence Subcom-

mittee, chaired by the CIA narcotics coordinator. Now for the first time the CIA, DIA, NSA, State Department, Treasury Department, and the White House were brought together as one force in the war against drugs.

Earlier that summer the CIA finally decided to "legitimate" its drug watch list by processing it through the USIB mechanism. Writing of the program in a memorandum to the other members of the IG staff, the CIA member noted: "During the past year this effort was increased in scope, with most of the work done on the basis of informal requests for information from the various agencies involved in the problem. COMINT produced has been of great value to the CIA production offices and has been used as a principal source of information in several intelligence reports and memoranda. We understand that it has also bee [sic] of considerable value to operational components, such as the Bureau of Narcotics and Dangerous Drugs."

Following approval by the USIB, the new narcotics requirement was added to NSA's IGCP as Line Item 8 of Group B, Subelement 32:

- 8. International Narcotics activities.
  - a. Report information relating to the international trafficking in narcotics and dangerous drugs.\*

Time specification of the item was to be "within 72 hours after recognition" and reporting to be at an estimated completeness level of "2," the level at which the NSA had been reporting all along.

Throughout 1972 the Nixon administration's drug war continued. On June 12 the CIA reorganized its Office of Narcotics Coordinator into the more unified Narcotics Coordination Group, or NARCOG.

\* This line item applied only to Subelement 32, possibly North and Central America. Later, however, NSA "developed its processing effort" against the international, internal, and external communications of much of the world and, therefore, on July 22, 1974, added a new line item to Subelements 24, 26, 27, 28, and 29. Generally, the language of this additional line item was identical in each subelement and in all cases provided for the various watch lists and referred to travel. For example, the 1974 IGCP provided:

Subelement 27 [Western Europe]
Group B [ILC traffic (international licensed carriers)]
Line Item 6
d. Travel of selected individuals. a/

(1) Travel of individuals related to narcotics trafficking. b/

a/ As specified by or through CIA.

b/ As specified by BNDD, ONNI, Customs, and/or CIA.

The following month the White House issued Executive Order 11676, providing for the establishment, within the Justice Department, of the Office of National Narcotics Intelligence (ONNI), whose major goal was to be "the development and maintenance of a National Narcotics Intelligence System." And in September the President told an International Narcotics Control Conference: "We are living in an age, as we all know, in an era of diplomacy, when there are times that a great nation must engage in what is called a limited war. I have rejected that principle in declaring total war against dangerous drugs . . . We are going to fight this evil with every weapon at our command."

By now, the names of U.S. citizens on NSA's many watch lists had grown from the hundreds into the thousands, presenting increasing worries for the Agency's chief keeper of the secrets.

More and more, during his thirteen years as the Puzzle Palace's de facto head, Dr. Louis Tordella began resembling Webster's definition of one of the Agency's highest code words, Umbra: "the dark cone of shadow from a planet or satellite on the side opposite the sun." If NSA was the darkest part of the government, Tordella was the darkest part of the NSA. Even General Carter, DIRNSA for the longest period of time, could never be totally sure he knew all of the Palace's secrets; he believed there may have been times when, "because of the sensitivity they felt, well, why burden [me] with it?"

When Noel Gayler took over as director in August 1969, Tordella waited a year or so before briefing even him on the NSA watch list program. The DIRNSA, however, was not the only one kept in the dark about the operation. The fact that NSA had begun devoting additional resources to the specific purpose of targeting U.S. citizens had never been approved by, or even formally brought before, the USIB. Although the board did approve the drug watch lists, it was only when the information was picked up as a by-product of NSA's normal foreign intelligence collection. As one senior official familiar with the mechanics of the Agency's operations pointed out, "Consumers and NSA are often in direct contact and USIB cannot maintain complete oversight. Consequently, NSA may, without the knowledge of USIB, embark upon a new collection requirement."

That the USIB was completely unaware of the NSA's specific U.S. targeting programs, like the one directed at the pay telephones in Grand Central Station, is evidenced by a report prepared by the USIB's Critical Collection Problems Committee (CCPC). On January 31, 1972, DCI Richard Helms asked the CCPC to conduct a review of intelligence efforts against narcotics, looking into such problems as the coordination of collection, dissemination, and production of national intelligence information on narcotics. The final report was

issued in October 1972, more than two years after NSA had secretly begun directing programs against American citizens. Under the heading "SIGINT Information on Narcotics and Dangerous Drugs," the report opened its first paragraph with the declaration: "1. No SIGINT resources are dedicated solely to the intercept of narcotics information. The SIGINT which is now being produced on the international narcotics problem is a by-product of SIGINT reporting on other national requirements."

Another group that Tordella and Gayler mistrusted with the watch list information was, incredibly, their own intercept operators. Though using the three service cryptologic agencies (ASA, NSG, AFSS) to perform the Agency's worldwide intercept operations had the advantage of providing a cheap labor force, it also had a number of definite disadvantages. One of them was that most of the operators were young military personnel on short tours of duty. Because their turnover was high, the risks that one might someday decide to blow the whistle on the operation was greatly increased.

Tordella and Gayler's fears were realized in August 1972, when a twenty-five-year-old former staff sergeant in the Air Force Security Service decided to bare his top secret soul to the magazine Ramparts. A latent Vietnam War protester and former traffic analyst at listening posts in Turkey, West Germany, and Vietnam, Perry Fellwock wove a tale of much fact and some fancy in a question-and-answer session with the magazine, using the pseudonym Winslow Peck. The Joplin, Missouri, native's claim that NSA was able to break all Soviet code systems ("We're able to break every code they've got"), was most likely an exaggeration, but the majority of the sixteen-page article was, unfortunately for the Agency, quite accurate. Once the magazine hit the stands there was little the red-faced officials of the Puzzle Palace could do except hold their tongues in embarrassed silence. Prosecution, they must have reasoned, would only serve to confirm all that Fellwock had said.

The information released by the disenchanted sergeant, Tordella most likely concluded, was severely damaging to the Agency. Had Fellwock known of the drug watch list program, however, the results would have been devastating, which was why Tordella had withheld the most sensitive names and telephone numbers from the intercept operators at the East Coast listening post. In October, he sought the help of his sister agency, and, without protest, the CIA accepted and turned the mission over to Division D. On November 17 the chief of the Special Programs Division of the CIA notified his agency's director of Communications of the new requirement: "NSA had tasked [the East Coast site] with this requirement [to monitor for drug traffic] but

were unwilling to provide the site with the specific names and U.S. telephone numbers of interest on security/sensitivity grounds... To get around the problems mentioned above NSA requested the Agency [CIA] undertake intercept of the long lines circuits of interest. They have provided us with all information available (including the 'sensitive') and the [CIA] facility is working on the requirement."

Again, the tightest security was wrapped around the project, and even the CIA's own drug coordination unit, NARCOG, was uninformed of the new operation.

One who did discover the project, however, was CIA general counsel Larry Houston, and in a January 29, 1973, memorandum to the acting chief of Division D he made it clear that he didn't like what he found. In Houston's opinion the activity possibly violated Section 605 of the Communications Act of 1934, prohibiting the unauthorized disclosure of private communications. He concluded, too, that, since the intercepted messages were eventually given by NSA to BNDD, the activity was for law enforcement purposes, which was also outside the CIA's charter. As a result of Houston's memorandum, the CIA suspended any further collection.

According to Tordella, however, the major reason for the CIA pullout was that the phone calls were being intercepted from U.S. soil. "I was told that if they could move a group of Cubans up to Canada," Tordella later recalled, "it would be quite all right, but they would not do it in the United States." Rebuffed by the CIA, the Puzzle Palace took back its names and telephone numbers and continued the operation itself, once again unaffected by the burdens of federal law or the restraints of a charter. But six months later the risk of exposure became too great even for the NSA, and the drug program was shut down once and for all.

"Five or six years before we retired we did some very nice drug busts," recalled Frank Raven. "We demonstrated that we could follow drug transactions and drug dealers. We could do it quite economically—it wasn't a high-budget item." One such bust involved tipping off the BNDD about the impending arrival on American shores of an automobile that was so lined with cocaine that the drug authorities believed that the car had actually been built around the cocaine. Concluded Raven: "NSA could really have cleaned up the drug business—drug-running and such . . . But it got so screwed up in American law and American red tape that it wasn't worth the effort."

Although the science of codebreaking has undergone tremendous changes in the years between the pencil and the CRAY-1 computer,

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one principle has remained constant: it is always far easier to steal a code — and much less costly — than to attempt to break it.

This was where the black-bag experts of the FBI fitted into the cryptologic puzzle. A midnight break-in at the offices of the Syrian legation in New York City or the Iraqi embassy in Washington could provide an invaluable aid to the codebreakers of PROD. A photographed code book, the diagram of a new piece of crypto equipment, or the attachment of a bug to a scrambler phone could save millions of dollars and years of work.

But with a brief stroke of the pen, former gangbuster J. Edgar Hoover ended it all on July 19, 1966. On the bottom of a DO NOT FILE memorandum from his assistant director for Domestic Intelligence, William C. Sullivan, the subject of which was black-bag jobs, Hoover scratched, "No more such techniques must be used." In case the point was missed, he made his decision even more clear six months later. In a memo dated January 6, 1967, Hoover declared:

I note that requests are still being made by Bureau officials for the use of "black bag" techniques. I have previously indicated that I do not intend to approve any such requests in the future, and, consequently, no such recommendations should be submitted for approval of such matters. This practice, which includes also surreptitious entrances upon premises of any kind, will not meet with my approval in the future.

The switch in attitude by Hoover upset no one more than it did Lou Tordella. He believed that the director was simply growing old and more wary about preserving his established reputation — a wariness nurtured by the protective instincts of his close friend and number two man in the Bureau, Clyde Tolson. At one point Tordella speculated, in a conversation with chief FBI spook Sullivan, who also strongly disagreed with the new policy, that Tolson had probably told Hoover something to the effect: "If these techniques ever backfire, your image and the reputation of the Bureau will be badly damaged."

Growing impatient with the "new" Hoover, and hoping they could change his mind, Tordella and General Carter, in 1967, scheduled a brief meeting with the FBI director. The fifteen-minute appointment slowly stretched into two and a half hours as the two codebreakers sat through reruns of Hoover's past exploits against the likes of John Dillinger, "Ma" Barker, and the "Communist Threat." At last they were able to get across their point that the break-ins should continue, and it appeared that Hoover might have been moved; he told them

that their reasoning was persuasive and that he would consider reestablishing the earlier policies.

Delighted, Tordella and Carter headed back to Fort Meade. A few days later they congratulated each other when the news came that Hoover would allow FBI agents to resume the collection methods asked for by NSA. But that elation turned into anger three days later, when the FBI liaison to NSA brought the word that Hoover had changed his mind: the restrictions would remain. Sullivan then called Tordella to tell him that "someone got to the old man. It's dead." That someone, Sullivan surmised, was Tolson.

In his note to Tordella and Carter, Hoover indicated that he would conduct black-bag jobs for the NSA only if so ordered by the President or the Attorney General. Tordella, however, was reluctant to approach either. "I couldn't go to the chief law enforcement figure in the country and ask him to approve something that was illegal," he later explained — despite the fact that both he and Carter had already asked the director of the FBI to approve an identical policy. As for the President, this was "not a topic with which he should soil his hands," said Tordella. For the time being, at least, the matter would have to rest.

On January 20, 1969, Richard Milhous Nixon was sworn in as the thirty-seventh President. He had won with less than 1 percent of the total popular vote following what was probably the most violent presidential election campaign year in history.

In March and April, student riots erupted in San Francisco, Cambridge, and Ithaca; in Chicago, police and ghetto blacks began battling in the streets. In May, Assistant Attorney General Richard Kleindienst declared: "When you see an epidemic like this cropping up all over the country—the same kind of people saying the same kinds of things—you begin to get the picture that it is a national subversive activity." On November 15, over 250,000 people massed in Washington to protest the war in Vietnam while President Nixon and his close friend Charles (Bebe) Rebozo watched football on TV in the White House.

As the smoke from the April riots began dissipating, Nixon ordered his top domestic aide, John Ehrlichman, to have the intelligence community help him put together a report on foreign Communist support of campus disturbances. Because of what both men felt was a lack of substantial intelligence, however, the report was inconclusive, and two months later Ehrlichman decided to have a second and more thorough report prepared on the subject.

Assigned to the task was a twenty-nine-year-old Hoosier on Pat

Buchanan's research and speech-writing staff, Tom Charles Huston. A lawyer and recently discharged Army intelligence officer, the young White House counsel had drawn the assignment chiefly because of his keen interest in the subject and because he seemed to know more about New Left politics than anyone else on the White House staff.

On June 20, 1969, Huston dispatched a memorandum to the NSA, the CIA, the DIA, and the FBI, declaring that the "present intelligence collection capabilities in this area may be inadequate," and requesting, on behalf of the President, information about "what resources we presently have targeted toward monitoring foreign Communist support of revolutionary youth activities in this country." Huston also asked the agencies to indicate what gaps existed in intelligence on radicals and what steps could be taken to provide maximum possible coverage of their activities. Ten days later all the reports had been received, and once again Ehrlichman and the others in the White House were disenchanted by the results and the quality of intelligence.

Throughout the rest of 1969 and into 1970 the dissatisfaction continued. This, together with the growing number of riots and bombings, especially the explosion of a Weatherman "bomb factory" in a Greenwich Village town house in March, led White House chief of staff H. R. Haldeman to call a meeting in his office to discuss ways for improving coordination between the White House and the intelligence community. Also discussed at the April 1970 meeting was "whether — because of the escalating level of the violence — something within the Government further needed to be done."

The decision was to ask the President to meet with the directors of the four intelligence agencies and request from them reports on what could be done to curb the growing violence. Among those at the meeting — held, after several postponements, on Friday afternoon, June 5 — was Tom Huston, newly promoted to a high staff position in the White House and given responsibilities for internal security affairs.

In a sense, the meeting in the Oval Office represented a major coup on the part of Huston, who had long advocated the conference and was responsible for arranging it, and for William Sullivan, who had over the past year shared with Huston the belief that the best way to combat violence in America was to cast off the yoke of restrictions from the intelligence agencies. Lacking any in-depth background in intelligence matters, Huston continuously relied on Sullivan for guidance. Sullivan would point out what was desirable in terms of changes, and Huston would then attempt to convert the desirable into the possible.

Present at the meeting, besides Huston, Ehrlichman, and Haldeman, were Noel Gayler of the NSA, Donald V. Bennett of the DIA; CIA chief Richard Helms; Hoover of the FBI; and, incongruously, Robert H. Finch, Secretary of the Department of Health, Education, and Welfare.

According to Bennett, "The President chewed our butts" because of the lack of worthwhile intelligence on domestic violence. "Based on my review of the information which we have been receiving at the White House," Nixon told the gathering, "I am convinced that we are not currently allocating sufficient resources within the intelligence community to the collection of intelligence data on the activities of these revolutionary groups." To obtain the "hard information" he wanted, the President told the directors that they were to form a special committee to review the collection efforts of the intelligence agencies in the internal security area and then recommend steps that would strengthen the capabilities of the government for collecting intelligence on radicals and others who protested against government policy.

Concluding the meeting, Nixon asked that the intelligence chiefs work with Huston on the committee report. He appointed Hoover to serve as chairman of the committee, which was to be known as the Interagency Committee on Intelligence (Ad Hoc). Named to head the staff group that would be responsible for the actual drafting of the Special Report was Hoover's deputy for domestic intelligence, William Sullivan.

At Fort Meade, Tordella and Gayler looked on the ICI with joy and optimism. It could prove to be the perfect vehicle to force Hoover back into the black-bag business while giving presidential support to many of the Agency's very questionable collection activities. It also provided a perfect opportunity to expand NSA's domestic targeting operation. To head up the Agency's effort in support of the committee, Gayler picked Benson K. Buffham, the deputy assistant director for PROD under General Morrison and the top civilian in NSA's Production Organization.

Hoover wasted no time in starting the ball rolling. The first meeting was scheduled for eleven o'clock the following Monday in the FBI director's office. Gayler brought Buffham with him, though Helms and Bennett decided to come alone. After first reminding the chief spooks of the President's dissatisfaction with the current state of intelligence on domestic radicals, Hoover made it clear that what he felt the President wanted was a historical summary of unrest in the country up to the present.

Astonished by Hoover's interpretation of the President's charge, Huston objected, saying the report was not to be a historical summary at all but an assessment of current and future threats, a review of intelligence gaps, and a summary of options for changes in operations.

Gayler was next to object, seconding Huston's comments and adding that it was his understanding, too, that the purpose of the committee was to concentrate on the shortcomings of current intelligence collection. Bennett and Helms also agreed with Huston's view of the purposes of the ICI, and Hoover, who considered Huston a "hippie intellectual," reluctantly agreed and then abruptly adjourned the meeting.

The following day, around the large, oblong conference table in Room 7E-26 at CIA headquarters, the committee staff met for the first of four drafting discussions. Reading from an outline stamped TOP SECRET, Huston reiterated the purpose of the committee and then added that "operational details will be the responsibility of the chairman [Sullivan]. However, the scope and direction of the review will be determined by the White House member [Huston]." In other words, Sullivan would provide the expert guidance for picking out which collection barriers the counterintelligence experts wanted removed, and Huston would make sure the committee did not stray from the goal of suggesting ways to remove these barriers.

Among the "objectives" of the committee, Huston added, was the "maximum use of all special investigative techniques" and "clarification of NSA's role in targeting against communications traffic involving U.S. revolutionary leaders and organizations."

After Huston's presentation, Sullivan asked for comments on the level of classification for papers or reports prepared by the committee. Buffham spoke up, suggesting the adoption of a code word, and after some discussion it was agreed to stamp everything TOP SECRET, followed by NSA's caveat, HANDLE VIA COMINT CHANNELS ONLY. In addition, Helms recommended the establishment of a "Bigot List," "reflecting the names of all persons in each member agency or department who will work on or have knowledge of the work of the Committee." Both suggestions were unanimously adopted.

Next, the committee turned to the heart of the matter: the methodology of intelligence collection. One by one, around the table, the representatives discussed the numerous restraints on collection that hampered their ability to obtain the intelligence desired by the President. Buffham, who was accompanied by two of his top aides — Raymond James Gengler, a twenty-two-year Agency veteran who was representing G Group; and Leonard J. Nunno, representing Juanita Moody's

Consumer Liaison Office — called attention to the outline circulated by Huston in which the committee was called on "to define and assess the existing internal security threat." He said that such a study would require immediate attention from the counterintelligence specialists in each member organization. Huston agreed and suggested that the FBI prepare an assessment from the domestic point of view and the CIA from the foreign point of view. All members concurred, and the two agencies were asked to have the papers ready for distribution at the next meeting, scheduled for Friday, June 12, back at CIA head-quarters.

The second meeting, like the first, was basically preparatory, consisting of general discussions and establishing the groundwork for the third, and most important, meeting. On June 17, the committee was ready to examine thoroughly the first draft of the report, a process that began at two o'clock and lasted for four hours.

As the draft session began, Buffham immediately brought up the matter of resuming FBI black-bag jobs in support of NSA's activities, saying that millions of dollars could be saved by such operations. The topic figured so prominently throughout the afternoon that it led staff chairman William Sullivan to draw the impression "that Admiral Gaylor [sic] of National Security Agency may have been a moving force behind the creation of this committee."

As the report finally evolved through the late afternoon, for each of the intelligence collection methods the President would be presented the option of (1) continuing the present restrictions, (2) asking for more information, or (3) accepting one of the listed relaxations.

Under Category One, "Interpretive Restraint on Communications Intelligence," the committee took up COMINT, and Buffham launched into a discussion of NSA's authority under the top secret National Security Council Intelligence Directive Number 6 (NSCID No. 6). Under the directive, considered by the Agency to be its "charter," the NSA has always interpreted its mission to be one of *foreign* intelligence collection. Thus, the Agency believed that it was barred from such activities as monitoring communications between U.S. citizens and targeting specific U.S. citizens.

Because of this, Buffham, Tordella, and Gayler saw in the Special Report a chance to obtain explicit approval to do what, in fact, they had already been doing for close to a decade. Such approval from the President for this practice would also allow them to expand the number of American names on the various watch lists. Buffham therefore proposed the following as ways to relax restrictions on COMINT collection:

- Present interpretation should be broadened to permit and [probably should read "a"] program for coverage by NSA of the communications of U.S. citizens using international facilities.
- Present interpretation should be broadened to permit and [probably should read "a"] program for coverage by NSA at the request of the FBI of the communications of U.S. citizens using international facilities. [Emphasis in the original.]

Category Two was entitled "Electronic Surveillances and Penetrations." Here again Buffham made the point that NSA "has been particularly hard hit by this limitation." Hoping to force the FBI back into the business of wiretap assistance to NSA, the deputy chief of PROD pointed out in the report that acquisition of important intelligence "from COMINT without benefit of the assistance which electronic surveillance techniques can provide, if possible at all, would be extremely expensive. Therefore, this approach could result in considerable dollar savings compared to collection methods."

Category Three dealt with mail coverage and thus was of primary concern to the FBI and CIA.

Category Four, "Surreptitious Entry," was probably the restriction NSA most wanted abolished. Of all the agencies involved in the ICI, NSA was the one with the greatest interest in removing the restraints on surreptitious entry. It was Tordella's golden opportunity to return to the days of diplomatic black-bag jobs.

The remaining categories were of primary concern to the other members of the committee.

Once the draft report was completed, Buffham and the representatives from the other agencies showed the document to their superiors. Gayler and Tordella both liked what they saw, as did Helms and Bennett, but Hoover blew his stack. "For years and years and years I have approved opening mail and other similar operations," the seventy-five-year-old FBI director fumed, "but no. It is becoming more and more dangerous and we are apt to get caught. I am not opposed to doing this. I'm not opposed to continuing the burglaries and the opening of mail and the other similar activities, providing somebody higher than myself approves of it."

Hoover wanted the entire report rewritten to eliminate the more extreme options, but Sullivan persuaded him simply to add his objections in the form of footnotes. Below the section dealing with electronic surveillances, for example, Hoover added that the FBI did not wish to change its current procedures but "would not oppose other agencies seeking authority of the Attorney General for coverage re-

quired by them and thereafter instituting such coverage themselves." In other words, if the NSA wanted a bug planted in the residence of some diplomat, it would have to do the planting itself.

The fourth and final meeting of the ICI staff took place on June 23. It was supposed to be used to polish up the final report, which was due to be signed two days later, on Thursday, June 25. But once the staff members took a look at Hoover's footnotes, they knew there were going to be problems.

Buffham reported back to a hopping-mad Gayler, who immediately got on the phone to Huston, demanding either another meeting of the directors, at which he would insist that the footnotes be withdrawn, or that he be allowed to add his own footnotes. Huston, hoping to avoid any more problems with Hoover, tried to calm the NSA director. He told Gayler that he would set forth the director's views in his cover letter to the President. Huston himself was considerably less concerned about the footnotes, feeling quite confident that in the end what the White House wanted, the White House would get.

At three o'clock on the afternoon of June 25, Gayler met with Bennett, Helms, and Huston in Hoover's office for the official signing ceremony. Following a few introductory remarks, the FBI chief turned to the first page and, addressing each member individually, asked whether he had any comments. He then did the same for the second page, and so on through the whole forty-three-page document. Each time Hoover came to Huston, however, he'd throw in an intentional jab by referring to him by a different name: "Any comments, Mr. Hoffman? Any comments, Mr. Hutchinson?" And so on. Nevertheless, Huston hoped the meeting would end before anyone raised objection to the footnotes. "We got down to about 'X' number of pages," Huston recalled later, "and, finally, it was just too much for Admiral Gayler, and so, sure enough, there he goes." Gayler began to complain about one of the footnotes, and he was soon echoed by DIA's Bennett.

The criticism took Hoover by surprise, and, clearly upset, he rushed through the remainder of the report. Once the four directors had signed the Special Report, Hoover reminded them to have all working copies of the document destroyed, then thanked them for their participation, and dismissed the committee for the last time, its assignment completed.

The following day Huston received the report at the White House and initiated his plan of action for getting the President to approve the strongest possible options contained in the Special Report. His first step was to draft a memorandum for Haldeman, outlining what the President should do with the report. Dated simply "July 1970" and titled "Domestic Intelligence Gathering Plan: Analysis and Strategy," the memorandum would eventually become known by a much simpler name: the Huston Plan.

The memo was Huston's ultimate revenge on Hoover. Calling the FBI director "the only stumbling block" to the ICI, and referring to his objections as "generally inconsistent and frivolous," Huston recommended that Nixon pacify Hoover with a "stroking session" and an autographed picture. "Mr. Hoover is set in his ways and can be bull-headed as hell, but he is a loyal trooper," the memo concluded. "Twenty years ago he would never have raised the type of objections he has here, but he's getting old and worried about his legend. He makes life tough in this area, but not impossible — for he'll respond to direction by the President and that is all we need to set the domestic intelligence house in order."

Following his denunciation of Hoover, Huston, in an attachment entitled "Operational Restraints on Intelligence Collection" and labeled TOP SECRET/HANDLE VIA COMINT CHANNELS ONLY, set out his recommendations on which restraints the President should lift. Of the first four, three dealt, significantly, with the NSA:

# A. Interpretive Restraint on Communications Intelligence.

### Recommendation:

Present interpretation should be broadened to permit a program for coverage by NSA of the communications of U.S. citizens using international facilities.

#### Rationale:

The FBI does not have the capability to monitor international communications. NSA is currently doing so on a restricted basis, and the information it has provided has been most helpful. Much of this information is particularly useful to the White House and it would be to our disadvantage to allow the FBI to determine what NSA should do in this area without regard to our own requirements. No appreciable risk is involved in this course of action.

#### B. Electronic Surveillances and Penetrations.

## Recommendation:

Present procedures should be changed to permit intensification of coverage of individuals and groups in the United States who pose a major threat to the internal security.

Also, present procedures should be changed to permit intensification of coverage of foreign nationals and diplomatic establishments in the United States of interest to the intelligence community.

Rationale:

At the present time, less than 65 electronic penetrations are operative. This includes coverage of the C.P.U.S.A. [Communist Party, U.S.A.] and organized crime targets, with only a few authorized against subjects of pressing internal security interest.

Mr. Hoover's statement that the FBI would not oppose other agencies seeking approval for operating electronic surveillances is gratuitous since no other agencies have the capability.

Everyone knowledgeable in the field, with the exception of Mr. Hoover, concurs that existing coverage is grossly inadequate. CIA and NSA note that this is particularly true of diplomatic establishments, and we have learned at the White House that it is also true of New Left groups.

# D. Surreptitious Entry.

Recommendation:

Present restrictions should be modified to permit procurement of vitally needed foreign cryptographic material.

Also, present restrictions should be modified to permit selective use of this technique against other urgent and high priority internal security targets.

Rationale:

Use of this technique is clearly illegal: it amounts to burglary. It is also highly risky and could result in great embarrassment if exposed. However, it is also the most fruitful tool and can produce the type of intelligence which cannot be obtained in any other fashion.

The FBI, in Mr. Hoover's younger days, used to conduct such operations with great success and with no exposure. The information secured was invaluable.

NSA has a particular interest since it is possible by this technique to secure materials with which NSA can break foreign cryptographic codes. We spend millions of dollars attempting to break these codes by machine. One successful surreptitious entry can do the job successfully at no dollar cost.

Surreptitious entry of facilities occupied by subversive elements can turn up information about identities, methods of operation, and other invaluable investigative information which is not otherwise obtainable. This technique would be particularly helpful if used against the Weathermen and Black Panthers.

The deployment of the Executive Protection Force has increased the risk of surreptitious entry of diplomatic establishments. However, it is the belief of all except Mr. Hoover that the technique can still be successfully used on a selective basis.

On July 14, a week or so after he had submitted the memo and recommendations to Haldeman for delivery to the President, Huston

received the good news that Nixon had approved the entire package. The only thing that bothered him now was that the President had decided against the Hoover "stroking session."

Just over a week later, on July 23, Huston put the final touches on the plan and sent it off via courier to the various agencies. When Gayler, Tordella, and Buffham received their copies, there was, no doubt, a victory celebration. From the very first, Tordella had regarded Huston and the ICI meetings as, in his own words, "nothing less than a heaven-sent opportunity for NSA." Now they had, in black and white, the presidential authorization to do what they had been doing all along. In addition, Tordella could once again order embassy buggings and break-ins from the FBI.

"The President has carefully studied the Special Report," the Huston memorandum to Admiral Gayler began, "of the Interagency Committee on Intelligence (Ad Hoc) and made the following decisions:

- 1. Interpretive Restraint on Communications Intelligence. National Security Council Intelligence Directive Number 6 (NSCID No. 6) is to be interpreted to permit NSA to program for coverage the communications of U.S. citizens using international facilities.
- 2. Electronic Surveillances and Penetrations. The intelligence community is directed to intensify coverage of individuals and groups in the United States who pose a major threat to the internal security. Also, coverage of foreign nationals and diplomatic establishments in the United States of interest to the intelligence community is to be intensified.
- 4. Surreptitious Entry. Restraints on the use of surreptitious entry are to be removed. The technique is to be used to permit procurement of vitally needed foreign cryptographic material and against other urgent and high priority internal security targets.

If there was jubilation in Gayler's office over the Huston Plan, there was outraged fury in Hoover's office. According to Sullivan, the FBI director "went through the ceiling." Hoover stormed out of his office with his assistant, Cartha DeLoach, and straight into the nearby office of Attorney General John Mitchell. Mitchell was totally surprised. It was the first time he had ever heard of the Interagency Committee on Intelligence, let alone the Special Report or the Huston Plan, and his immediate reaction was to agree with Hoover: the illegalities spelled out in the memorandum could not be presidential policy.

Mitchell, also angry at having been by-passed by everyone on the

whole affair, told Hoover to "sit tight" until President Nixon returned from San Clemente, when he would have the chance to take the matter up with him.

When Nixon returned from the Western White House, one of his first visitors on July 27 was John Mitchell. The proposals contained in the Huston Plan, the Attorney General declared, were, in toto, "inimical to the best interests of the country and certainly should not be something that the President of the United States should be approving." In addition, Mitchell said, "the risk of disclosure of the possible illegal actions, such as unauthorized entry into foreign embassies to install a microphone transmitter, was greater than the possible benefit to be derived."

Convinced, Nixon decided to withdraw his approval of the plan. Haldeman told Huston that, because of the meeting with Mitchell, the President had decided to revoke the memorandum immediately so that he, Haldeman, Mitchell, and Hoover could "reconsider" the recommendations.

Upset, angered, and embarrassed at having to recall his memorandum, Huston walked down to the Situation Room and into the office of Sit Room director David Y. McManis. After mumbling something about Hoover's having "pulled the rug out" from under him, he handed McManis the presidential order to rescind the decision memorandum dispatched from that very office only four days earlier. McManis then sent a memorandum to Hoover, Gayler, Helms, and Bennett, recalling the document. By the close of business the following day, July 28, each agency had complied, and the Huston Plan was placed securely under lock and key in the White House. But, as the markings on the returned documents indicated, each agency had removed the staples, undoubtedly so that it could photocopy the plan for its records and, possibly, for its own future protection.

Equally perturbed over the sudden revocation of the Huston Plan were Tordella, Gayler, and Buffham. Suddenly they were back to square one. Still, they had been conducting their domestic intelligence targeting without authorization for many years before the Huston Plan, and just because the President had formally withdrawn his approval, they saw no reason to stop. In fact, the watch lists of American names were flowing into the Puzzle Palace faster than ever.

What really bothered the NSA threesome about the loss of the Huston Plan was not that they would have to continue such massive operations as Shamrock, Minaret, and the drug watch lists without authority, but that the FBI's wiretappers and second-story men remained beyond their reach.

A few days after his humiliating visit to the Situation Room, Huston went to Haldeman's office and tried to persuade him to convince the President that the objections raised by Hoover should be overridden. He urged a meeting between Haldeman, Mitchell, and Hoover and, in anticipation of the meeting, submitted a memorandum to Haldeman, laying out various rebuttals to arguments that Hoover might make. "I don't object to NSA conducting surreptitious entry if they want to," went one Hoover argument, followed by Huston's response: "The answer is that NSA doesn't have the people, can't get them, has no authority to get them, and shouldn't have to get them. It is an FBI job."

More memos followed, but Huston knew that the game had already been won — and not by him. "I was, for all intents and purposes, writing memos to myself," he recalled. What Tordella had told Gayler when the new director first moved into the Puzzle Palace had apparently been lost on the young White House assistant: on matters relating to domestic intelligence, no one challenged Hoover.

Less than two weeks after Nixon rescinded the Huston Plan, its author was called into Haldeman's office and informed that a new White House aide would be taking over responsibility for internal security matters and that from now on he would be on the new aide's staff. The following day Huston met his new boss, a young lawyer who had worked under Mitchell at the Justice Department and had been transferred to the White House only a few days earlier — John Wesley Dean III. Demoted and frustrated, Huston resigned from the White House staff less than a year later and returned to Indiana to practice law.

Although Huston may have found his way to the White House graveyard, his plan was still very much alive and well. By late August, Haldeman had approached Dean and instructed him to see what he could do to get the plan implemented. On September 17, Dean paid a visit to his old boss, Mitchell, and explained Haldeman's request, but the Attorney General simply reiterated his opposition to the plan — with one exception. The original Huston Plan had called for the establishment of a permanent interagency committee for intelligence evaluation, and Mitchell said he now felt that such an organization might be useful.

Dean returned to Haldeman and suggested that the establishment of an evaluation committee could be viewed as a first step, with the lifting of collection restraints to come later. "A key to the entire operation," he wrote in his memo to Haldeman, "will be the creation of an interagency intelligence unit for both operational and evaluation

purposes . . . and then to proceed to remove the restraints as necessary to obtain such intelligence." (Emphasis added.)

Haldeman concurred, and throughout the fall the interagency Intelligence Evaluation Committee (IEC) was set up, housed under a Justice Department cover, and placed under the charge of Robert C. Mardian, the assistant attorney general for Internal Security. The first meeting, on December 3 in Dean's office, looked like a reunion of Huston's old Interagency Committee on Intelligence. Buffham and Jim Gengler of PROD were there, representing the NSA; James Angleton of the CIA; George Moore from the FBI; and Colonel John Downie of Defense. The focus of the IEC, it was decided, would be on "intelligence in the possession of the United States Government respecting revolutionary terrorist activities in the United States and to evaluate this intelligence to determine (a) the severity of the problem and (b) what form the Federal response to the problem identified should take."

Underlying this "evaluative" aspect of the committee, however, was a firm desire to reinstate the ill-fated Huston Plan. This was made clear in one of the committee's first publications, an unsigned memorandum for Mitchell, Haldeman, and Ehrlichman. "All those who have been involved in the project," the January 19, 1971, memo began, "firmly believe that the starting point for an effective domestic intelligence operation should be the implementation of the Special Report of the Interagency Committee on Intelligence."

Several days after the memo was issued, NSA began preparing a memorandum of its own on the contributions it was prepared to make to the IEC. Entitled "NSA Contribution to Domestic Intelligence," the top secret, eyes only memo was addressed to Attorney General Mitchell and Secretary of Defense Melvin Laird and was signed by Gayler. Under "Scope" the January 26 memorandum listed: "Intelligence bearing on: (1) Criminal activity, including drugs (2) Foreign support or foreign basing of subversive activity (3) Presidential and related protection." The source of the intelligence was to be "telecommunications with at least one foreign terminal." And the procedures included:

- 1. Compartmented reporting to FBI or BNDD for criminal activity, to FBI and CIA for foreign-related subversive activity, and to the Secret Service for Presidential protection.
- 2. No indication of origin.
- 3. No evidential or other public use under any circumstances.
- Screening at source (NSA) to insure compliance with the above criteria.

The memo concluded with the comment "It is further understood that NSA will insure full availability of all relevant SIGINT material by competent and informed representation in the Justice working group."

A week later, Buffham hand-carried the memo to Laird's office, passed it to the Secretary's military assistant, and received it back a few minutes later with the comment that Secretary Laird had read and agreed with it. That same day, at five minutes past noon, he entered Mitchell's office, showed him the document, and departed about five minutes later.

For the first time, NSA had formally revealed its watch list operation to higher authority; ironically, though, the memorandum was written in the future, not the past or present tense.

Just as the Huston-sponsored ICI was a front-door approach to the initiation of a virtually unrestricted domestic espionage program, the Dean-sponsored IEC, in Hoover's view, was a back-door approach to the same problem. The FBI director wasted no time in informing IEC chairman Mardian that the Bureau would refuse to supply staff support to the committee, a prospect that worried Mardian enough to make him warn the Attorney General that they might as well close up shop without it. Eventually Hoover did send over two analysts, but they were little more than tokens.

Given Hoover's truculent attitude toward any effort designed to bring down barriers on domestic collection, Gayler, Tordella, and Buffham saw little hope in the IEC as the vehicle to bring the FBI back into the business of diplomatic break-ins and embassy buggings. The only avenue left was a direct appeal to the Attorney General.

With Helms along for support, Gayler met with Mitchell on March 29, 1971, and explained that the NSA was "most desirous" of having the black-bag coverage resumed. Hoover, who was also at the meeting, then turned to the two intelligence chiefs and told them that he "was not at all enthusiastic about such an extension of operations insofar as the FBI was concerned in view of the hazards involved."

Mitchell had known of the NSA-FBI feud for some time now. Earlier that year, on February 5, he had mentioned it at a meeting of the President's Foreign Intelligence Advisory Board (PFIAB). When questioned about increasing electronic surveillance on foreign embassies, the Attorney General told the group "that NSA and FBI Director Hoover are having a running battle on this very point." He added that "NSA is also urging resumption of physical entry." Then, in defense, Mitchell commented, "We have more taps on now than when the Republicans came to Washington."

Once Hoover said his piece during the meeting in Mitchell's office, the AG asked both Helms and Gayler to prepare "an in-depth examination" of exactly what the two wanted. After reading the report, he said, he would reconvene the group "and make the decision as to what could or could not be done."

Although no record exists of the Helms-Gayler report or the outcome of Mitchell's decision, CIA director Helms did eventually propose to Hoover a very sensitive bugging operation against a specific embassy, quite possibly that of South Vietnam. But a week later Hoover once again rejected it. A few hours later Helms sent a letter to Mitchell, requesting that Hoover be overruled, and the following day he received a positive response. Within two days the bugging equipment had arrived at FBI headquarters from the CIA, and over the course of three weeks, beginning on April 27, the FBI bagmen installed it. On May 18 the CIA was informed that the bugs "were tested and all were working." Hoover at long last had suffered a defeat.

Helms, however, had not heard the last from the old G-man. In early February 1972, the CIA was informed that Hoover was about to testify in Congress and planned to tell the congressmen that the bugging operation had been initiated at the request of the CIA. The agency immediately requested that the operation be halted.

Ten months later, on the eve of a massive bombing campaign against Hanoi and Haiphong, the CIA asked the Bureau to reinstate coverage of the embassy. But by December 20, two days after the bombs began dropping and twelve days after the CIA asked for the coverage to be renewed, the FBI still had not acted. As a result, the State Department sent its own request to the Bureau, asking that it "institute all possible coverage" of the target. Finally, two days later, coverage was partly re-established, and by December 26, the day after Christmas, all the bugs were back in working order.

# FISSURES

Physically, the Puzzle Palace is protected by a moat of steel, high-voltage electricity, and barbed wire, but this is little more than window dressing. Its real protection is an invisible fourth barrier, a wall more formidable than all of the Cyclone fences and armed guards in Washington put together. It is a wall of anonymity, of mystery, and of silence, and it has seldom been breached.

Since first erected in front of MI-8 and the Black Chamber, the wall has managed to hide from public view not only almost all activities and details concerning the NSA and its predecessors, but, for their first four decades, until 1958, any official confirmation that such an agency existed at all. Even in the late 1950s, when NSA's name at last appeared in an official, unclassified government document, its listed functions were simply a vacuous cover story. Until then its name, the identity of its director, and even its existence were considered more sensitive than top secret and were known only to a handful in government.

Even today one can find more public information on the Soviet KGB, the NSA's closest competitor in terms of size in the world of espionage, than on the NSA itself. Harrison E. Salisbury, for nearly forty years an editor and foreign and domestic correspondent for the New York Times, candidly admitted that during most of his long career he himself had never even heard of the Agency. "I should have," he confessed. "So should every American. This is the behemoth of U.S. security outfits . . . In many ways it makes the CIA and the FBI look like country cousins."

The Pulitzer Prize-winning journalist, who learned of the Agency only after discovering that for decades it had been reading his cables and monitoring his communications, added that he was hardly alone in his surprise: "Those initials are not exactly your household acronym. If I ask my neighbor what is the country's biggest security agency,

281

he will say the CIA or the FBI. He will be wrong. The National Security Agency is the biggest, and not one American in 10,000 has even heard its name."

FISSURES

It is only slightly less than extraordinary that in a nation that has turned investigative journalism into an art form, where the government is dissected daily by an army of news-hungry media people, and that boasts of having the most informed populace in the world, only one person in ten thousand has ever heard of its largest and most expensive spy agency. Such is the effectiveness of NSA's wall of anonymity.

Just as the most enduring architecture is the product of great amounts of time and craftsmanship, so too is the wall surrounding the Puzzle Palace. Its foundation is built on granitelike statutes, like the COMINT law, considered by many to be the American equivalent of Britain's harsh Official Secrets Act, and Public Law 86–36, the amazing, little-known loophole that virtually excludes NSA from the burden of the Freedom of Information Act and allows the Agency to almost deny its own existence. Some Washington wags have been known to say the initials stand for No Such Agency; those inside the wall have another definition: Never Say Anything.

Resting on the foundation is what NSA refers to as its "policy of anonymity," a sort of reverse public relations plan, under which employees are forbidden from saying any more about their jobs than that they work for the Department of Defense. It is probably the only agency in government without a public information officer; the few inquiries received are simply met with a brisk "no comment." So pervasive is the policy that even officials in other government departments generally refer to the Agency in hushed tones, and then only when necessary.

But perhaps the most important element in the wall's construction is a large underpinning of mystic ritual and superstition. Few aspects of America's military and diplomatic past conjure up as much intrigue and romance as codebreaking. The Zimmermann telegram, the Black Chamber, the breaking of the Japanese Purple code, the Battle of Midway, Magic, Ultra—they lend an almost supernatural aura to the field, an aura hardly in keeping with today's computerized supercodes and vacuum cleaner approach to private and commercial microwave interception, but one that the NSA wants people still to believe in.

For decades the NSA has managed to elude anything vaguely resembling close congressional scrutiny, or even a journalistic peek, by spreading out its black cloak of codes and ciphers and repeating the warning that the slightest inquiry could gravely jeopardize America's

fragile cryptologic efforts. The real fear, however, is not that of compromising "the American code," which, in a sense, is changed thousands of times a second, but of revealing the existence of such massive illegal operations as Shamrock and Minaret. After the defections of Martin and Mitchell, for example, Chairman Walter made it clear that, although his House Un-American Activities Committee intended to investigate the circumstances surrounding the affair, it would conscientiously keep its eyes averted from all activities of the Agency while doing so:

The specific functions of the National Security Agency and the role they play in the security of the United States are so highly sensitive that they are carefully guarded, not only from the public, but from other Government agencies as well.

The sensitive nature of the operation of the National Security Agency was recognized and respected by the Committee on Un-American Activities during its investigation and hearings. The committee did not attempt to learn the details of the organizational structure or the products of the Agency, feeling it had no need for knowledge in these areas.

David Kahn, for many years the only outsider skillful enough to snatch a glimpse over the wall, commented on NSA's constant attempts to play on Congress' fear and ignorance. In *The Codebreakers* he wrote, "Often the agency enshrouds its secrets in fearful gloom, awing Congressmen with sacred mysteries that are no more to be uttered than is the tetragrammaton."

For more than fifty years the wall of anonymity NSA inherited stood with only the slightest of cracks, represented by Yardley's book and the defections of the early 1960s, but even those originated mainly inside. As the 1970s began, however, a number of unprecedented attacks threatened not only to shake the wall to its foundation, but actually to send it tumbling down on those within. The first fissure appeared on June 13, 1971, when the New York Times started publishing excerpts from a top secret history of U.S. decision-making in the Vietnam War: the Pentagon Papers.

In the White House, President Nixon, already nearly consumed with paranoia over earlier leaks, viewed the breach of security with concern and anger. Compounding his distress was the news from the FBI that one of its most important national security informers, a turncoat KGB agent working for the United Nations in New York, had informed them that a complete set of the Papers had been passed to the Soviet embassy. Although the agent, code-named Fedora and

FISSURES 283

said to be Soviet diplomat Victor Lessiovski, had been reporting to the FBI for more than a decade, some in the intelligence community, particularly the CIA, questioned his bona fides. CIA spy hunter James Angleton, for example, believed the Russian to be an agent provocateur rather than an authentic informer, an opinion the FBI rejected but years later would agree with.

Where Nixon was furious over the leak of the Papers, officials at the Puzzle Palace were stunned and horrified. If the Russians had, in fact, obtained their own set of the Papers, then along with them may have gone the key to one of NSA's most prized, as well as most secret, intelligence sources.

Code-named Gamma Gupy, the operation involved eavesdropping on Soviet government leaders by intercepting their scrambled radiotelephone conversations as they traveled around Moscow in their limousines. It was accomplished, apparently, from the American embassy by an Army Security Agency unit, USM-2. Once captured, the intercepts would be stamped TOP SECRET VIPAR GAMMA GUPY and transmitted back to the Puzzle Palace for unscrambling.

One former intelligence official who had access to the transcripts described the system as one of the most valuable intelligence pipelines the United States had in the Soviet Union. Among the conversations being read in the Agency were those of party boss Leonid Brezhnev, President Nikolai Podgorny, and Premier Alexei Kosygin. Although the Russian officials were wise enough not to speak of high-level strategic affairs over the minimum-security phone system, Gamma Gupy "gave us extremely valuable information on the personalities and health of top Soviet leaders," the former intelligence officer declared. "But we didn't find out about, say, the invasion of Czechoslovakia. It was very gossipy — Brezhnev's health and maybe Podgorny's sex life."

What started teeth rattling at NSA was that some of Brezhnev's conversations had been referred to, without their origin being identified, in one of the volumes that was reported to have been given to the Soviet embassy but was never printed in the *Times*.

The fears seemed to be confirmed when, immediately after the Papers were reported to be in Russian hands, the intercepts became much more mundane. The intelligence experts speculated that the Soviet Union had deduced the United States capability and had sent warnings to its top officials.

While possibly the most serious problem, Gamma Gupy was not the only worry. Peppered throughout the forty-seven-volume study, NSA officials believed, were numerous other references that could tip off foreign governments, particularly that of North Vietnam, that their communications were being intercepted and their codes broken.

Even before the Pentagon Papers, the subject of leaks to the press had become white hot in the Nixon White House; now with the latest spectacular revelations, lead was beginning to melt. The administration, the President decided, would begin an immediate counterattack on two fronts, one through the courts and the other, much less visible, with a small unit later to become known as the plumbers.

The opening shot on the legal front was fired shortly after the first excerpts began rolling off the presses. The Department of Justice applied for and received a temporary restraining order, halting any further publication of the documents until a hearing before a federal judge could determine whether future publication should be permanently banned.

For the hearing, Pentagon general counsel J. Fred Buzhardt recruited what he felt were three of his biggest guns to testify about the validity of the top secret classification of the documents. The only problem was that two of them had never even read the material, and the third was not considered a very good witness to begin with. It was a distressing situation for Michael Hess, the assistant U.S. Attorney who was about to argue the case for the government.

Surprised by Hess's reaction, Buzhardt reluctantly began to speak of another possible witness, one who could most authoritatively address the matter of the sensitivity of the Pentagon Papers — but there was a catch. Because not only the identity of the witness was considered top secret but even the agency he represented, the only way his testimony could be taken would be for him to be closeted in a private room with no one else present except the judge.

After Hess said that was impossible because it violated every rule of judicial procedure, Buzhardt suggested that his secret witness submit a sealed affidavit exclusively for the judge's eyes. Again Hess had to remind the Pentagon lawyer that the *Times* had just as much right to any statements introduced in court as it did to cross-examine a witness.

"Then we can't do anything," an angry Buzhardt shot back. "It is such a secret matter that it must be given to the judge alone."

As Hess surmised, and as Buzhardt years later confirmed, the only official capable of commanding such intense cloak-and-dagger secrecy was Vice Admiral Noel Gayler, director of the Puzzle Palace.

There was still more to worry about than revelation of NSA's codebreaking successes. Scattered throughout the documents were numerous verbatim copies of classified and previously encrypted messages, FISSURES 285

complete with date-time-groups; that is, the series of numbers identifying the exact time and date the message was sent. The fear was that once the plain text of the messages was revealed, an adversary might be able to compare them to intercepted encrypted versions, one of the oldest techniques in cryptanalysis, and thereby break the code.

Such a problem had been anticipated by the *Times*. To help resolve the dilemma, the newspaper brought on as a consultant David Kahn, who assured them that any injury to American cryptographic systems would be negligible.

Another argument to be used should the government decide to bring up the matter of codes was that of the congressional hearings into the loss of the U.S.S. *Pueblo*, the ill-fated SIGINT spy ship captured by North Korea. Contained in the unclassified transcript of the hearings, and open to the public, are almost a dozen once-classified messages that, like those in the Pentagon Papers, were completely unaltered and unparaphrased and contained the original date-time-group.

Once the hearing was under way, Judge Murray Gurfein, himself a World War II veteran of the OSS, brought the issue of codes to life when he spoke of his concern about the lack of paraphrasing for the messages. Alexander M. Bickel, the Yale Law School professor who was representing the *Times*, attempted to allay the judge's concern by arguing that there had never been an allegation by the government that "anything the *Times* put in print broke a code, compromised a code, came within five miles of an existing code." But Gurfein was still not convinced. Looking at Bickel, he exclaimed: "Neither you nor I nor the *New York Times* is competent to pass on that subject, as to what will lead to the breaking of a code."

Bickel then raised the argument that "the security of codes is insured by their being changed with extreme rapidity in very short order." But Gurfein brushed aside the argument, saying that the history of the Vietnam conflict could be discussed "without reprinting verbatim a code message."

The debate, until now in open session, became in camera when the sensitive subject of codes came up again, Gurfein still expressing unease over release of the messages in unparaphrased form. But after more squabbling, the issue was at last buried when Vice Admiral Francis J. Blouin, deputy chief of Naval Operations and one of the government's three main witnesses, rose from his seat. "Judge Gurfein," the decorated veteran of three wars said, "you and I are probably the only people in this room old enough to remember when verbatim texts compromised a code." Bickel was smiling from ear to ear.

"The security of the Nation is not at the ramparts alone. Security also lies in the value of our free institutions. A cantankerous press, an ubiquitous press must be suffered by those in authority in order to preserve the even greater values of freedom of expression and the right of the people to know." With those eloquent words Judge Gurfein, on June 19, 1971, decided the historic case in favor of the Times, though continuing the restraining order to give the government time to appeal.

At the Puzzle Palace the decision caused fear and gloom. It was an outcome dreaded by Director Gayler, but one that he had recognized as a possibility and for which he had already established a contingency plan.

On the Saturday morning the decision was released, the ink had hardly dried when Buzhardt informed Whitney North Seymour, Jr., the U.S. Attorney for New York City who had argued the case, that a high official from the NSA by the name of Milton Zaslow wanted to meet quietly with someone from the upper management of the Times to discuss certain security matters. Zaslow, a former chief of B Group, had taken over from Benson K. Buffham the choice post of Deputy Assistant Director for Production. As the top civilian in PROD, just below Major General John E. Morrison, Jr., chief of the Production Organization, Zaslow was the Agency's second-highest professional cryptologist, second only to Deputy Director Tordella. "Milton was the most powerful civilian there; he was Gayler's right-hand man," said one former NSA official. "Gayler wouldn't poop without him."

Seymour passed on the request to *Times* attorney Bickel, who was apprehensive about such a meeting, fearing NSA might attempt to trap the newspaper by telling it something and then prohibiting it from responding or even revealing what was said. Nevertheless, the *Times* agreed to the meeting, and it was decided that Vice Chairman Harding Bancroft would represent the paper, because he had at one time held a sensitive security clearance when he worked at the State Department, and NSA had requested someone with such a clearance.

In order to waste as little time as possible, the meeting was first scheduled for the next day, Sunday, but was later changed to Monday afternoon at three. When it turned out that Seymour's office in the Federal Building was not secure enough for Zaslow, the U.S. Attorney suggested a small, private, out-of-the-way room in a building occupied by the Bar Association of New York. The building had the added advantage of allowing Zaslow to enter from one side and Bancroft to enter from another.

Zaslow, a rather short, pudgy-faced man with thick, wavy, black hair, reportedly arrived wearing a pistol strapped across his chest and accompanied by a security agent from M5 wearing two revolvers at his sides. The melodrama gave one *Times* official the impression that the two had been sent over by central casting for a remake of *Gang Busters*. After an introduction, Seymour left Bancroft and Zaslow alone in the room and waited outside, along with the M5 agent and a *Times* lawyer.

Once they were alone, Zaslow wasted no time in saying why he was there: he wanted the *Times* to agree to delete from the Pentagon Papers anything that might alert foreign governments to the fact that their communications systems had been penetrated. This meant that any information regarding successes, the means employed in interception, or any reference to time of interceptions was to be strictly excised. The necessary deletions could be made, Zaslow said, if the *Times* agreed not to print details that would reveal intelligence sources, that would identify specific movements of North Vietnamese troops or supplies, or that in any way referred to a specific intercept.

Bancroft, to Zaslow's relief, saw no problem in abiding by the guidelines but pointed out that an editor might occasionally have some difficulty in certain gray areas. Recognizing that possibility, Zaslow offered Bancroft both his NSA and home numbers to call for assistance if the need arose, but cautioned that he would have to get an OK from his superiors and pointed out that only two or three other people even knew of this meeting.

After the meeting, Zaslow and his security agent headed back to Fort Meade, and Bancroft returned to the *Times*, where he reported his conversation and received assurances that the documents had already been edited with NSA's considerations in mind.

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If the Russians had not learned of Gamma Gupy through the pages of a purloined copy of the Pentagon Papers, they definitely knew about it three months later after reading the September 16, 1971, Washington Post. Tucked into the top right-hand corner of page F7, Jack Anderson's "Washington Merry-Go-Round" column confirmed what the Kremlin may have already suspected. Without indicating exactly how the conversations are intercepted, Anderson reported on the government's ability to eavesdrop on "the kingpins of the Kremlin." He told of transcripts indicating that Brezhnev "sometimes drinks too much vodka and suffers from hangovers," and that Kosygin "is in poor health, and his complaints are more authentic," and that they both frequent a private clinic to get their aches soothed.

This compromise of COMINT reverberated like a sonic boom throughout the upper reaches of the intelligence community as well as the White House. Not knowing how much more damning information Anderson had up his sleeve, and hoping to build a firewall against any further damage, DCI Helms quietly invited the columnist to lunch and pleaded with him not to divulge the means by which the interception was made or ever again refer to the project.

In defense, Anderson insisted that his original source had told him that the Russians already realized their phone traffic was being monitored (possibly through their own set of Pentagon Papers), but he agreed not to mention any further details of the system. He specifically promised not to allude to the operation in his book, *The Anderson Papers*.

Despite his numerous defeats in the courts over the Pentagon Papers — first in the district court, then in the appeals court, and finally in the Supreme Court — Richard Nixon remained in the battle. Shortly after the Papers first appeared in the New York Times, Nixon called Iohn Ehrlichman to his office and instructed him to form a White House Special Investigations Unit with the sole purpose of plugging up the administration's security leaks. Ehrlichman picked his assistant, Bud Krogh, and former Kissinger aide David Young for the assignment. To round off the four-man unit, Krogh and Young turned to G. Gordon Liddy, a special assistant to the Secretary of the Treasury for organized crime who spent most of his time preaching the virtues of gun ownership throughout the government, and E. Howard Hunt, a former CIA spook with a so-so track record who was now an employee of a Washington public relations firm working as a consultant to Nixon hatchetman Charles Colson on anti-Kennedy propaganda. Operating out of Room 16 on the first floor of the White House, the plumbers were a study in right-wing mania, and their chief target was Pentagon Papers' leaker Daniel Ellsberg.

To drum up support for their cabal, Liddy crashed a staff meeting of the secret Justice Department Intelligence Evaluation Committee (IEC) and told the members, including the NSA representative, that his unit had been set up because of the President's deep concern over the many leaks and that "the President wants this sort of thing stopped." He went on to explain that his role in the plumbers' unit was as an "expediter," with the responsibility "to break down bureaucratic problems by applying either grease or dynamite." Despite Liddy's bravado, the secretary of the meeting recorded that "Mr. David Young can speak for Mr. Ehrlichman and is 'heavier' than Mr. Liddy; therefore, any requests from Mr. Young should be honored without checking with Liddy."

Liddy also told the August 4, 1971, gathering that he "intends to use the Staff members for direct and rapid access to their own Agencies in order to get over and minimize bureaucratic problems." He added that, although each agency would be officially charged through its respective head, "Mr. Ehrlichman was not prepared to wait until agencies had polished their contributions and sent them back through channels, but rather wanted to have access to information when and as it is developed." Liddy, therefore, according to a summary of his remarks at the meeting, expected "to be able to ask for things," from NSA as well as the other intelligence agencies, "through the IES [Intelligence Evaluation Staff] members and have them vested with the authority to get them and release them to the White House." To make sure the members took their new responsibilities seriously, Liddy informed them that he would sit with the IEC staff and audit the full IEC meetings.

Thus Liddy installed an underground pipe direct from the back door of the Puzzle Palace, as well as the rest of the intelligence community, via the secret IEC staff to the plumbers' unit. What, if anything, flowed through that pipe from NSA is unknown. What is known, though, is that during the investigations that followed the Watergate break-in, one of the arguments put forth by the White House, in an effort to limit inquiry into the plumbers' unit, was that continued investigation might endanger an operation involving codebreaking and COMINT. To this day there is still at least one plumbers' mission that has never been declassified or revealed.

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As the fissure created by the Pentagon Papers was sending tremors through the Puzzle Palace, several other hairline cracks were beginning to form.

On a cold day in the preceding December, a federal grand jury in Detroit handed out secret indictments against fifteen members of the radical Weatherman organization, a militant faction of the leftwing Students for a Democratic Society (SDS). The group, which included such revolutionary superstars as Bernardine Dohrn, Mark Rudd, and William Ayers, were charged with plotting a campaign of bombing and terrorism during a Weatherman "war council" in Flint, Michigan, a year earlier, in 1969.

The indictments set off a massive hunt by the FBI, which placed Dohrn on the ten-most-wanted list and forced most members of the group to go underground. During mid-1971, as the White House began putting more pressure on the federal law enforcement and intelligence community to crack down on radicals, the FBI and the

Secret Service added the Weathermen to their NSA watch lists. In short order they began receiving copies of communications to, from, or about members of the group, communications that had been intercepted by the Puzzle Palace.

By the summer of 1973, four of the militants had been captured and began standing trial. Ironically, that same summer the administration also went on trial as the Senate Watergate Committee took center stage.

In the Puzzle Palace, Lou Tordella, who as deputy director and chief mason of NSA's wall of anonymity for the past fifteen years, was worried. He knew the Agency's fingerprints were on many questionable activities and that the committee had the scent of blood. When committee chairman Sam Ervin pounded his gavel on the first morning of public hearings, Tordella could see the outline of yet another new fissure.

On June 7, 1973, the fissure broke through. That morning the New York Times revealed for the first time the existence of the Huston Plan and published its full text, including the revelation that NSA was "currently" monitoring international communications and wanted restrictions lifted on embassy black-bag jobs "to permit procurement of vitally needed foreign cryptographic material." Nevertheless, because the plan was so broad and revealed such a wide spectrum of illegal activities by the whole intelligence community, only a small amount of attention was directed at the Puzzle Palace.

But out of public view, as a side effect of the Watergate hearings, another pressure was threatening to send the wall tumbling. Shortly before the Huston Plan became known, lawyers representing the Weathermen, then on trial in Detroit, took a shot in the dark. Knowing the propensity of such groups as the plumbers to engage in buggings and burglaries, and hoping to find some evidence of governmental misconduct against their clients, the attorneys filed a motion requesting disclosure of all illegal federal surveillance directed against the defendants. This included any and all use of burglary, sabotage, electronic surveillance, agents provocateurs, or other "espionage techniques" against their clients by the White House plumbers, CIA, NSA, and the Departments of Justice, Treasury, and Defense.

On June 5, Federal District Court Judge Damon J. Keith approved the motion and ordered the agencies to comply. Two days later, Assistant U.S. Attorney William C. Ibershof returned to court to ask for reconsideration of the motion, saying, mysteriously, that "there were other considerations" involved, but refusing to elaborate. The plea rejected, Ibershof later that month offered an affidavit by the FBI

absolving itself of any illegal or "unauthorized" activity in investigating the Weathermen. As to the other agencies, said Ibershof: "The Government doesn't believe this is a proper forum for a trial of Government misconduct."

Judge Keith was unimpressed. Calling the denial a "perfunctory" response that "failed to go to the crux of the matter," he ordered the prosecution to produce, by September 3, "sworn statements from a person or persons with full knowledge of the actions of each specified group or agency" and set for later a hearing on the question of whether any of the evidence had been "tainted" by the government.

The order rocked the NSA. A public affidavit by the Agency admitting the interceptions would expose the Minaret and Shamrock operations as well as the watch list procedure. Compliance was unthinkable. On August 28, therefore, NSA officials at last informed Assistant Attorney General Henry Petersen of the problem, telling him that communications involving the Weathermen defendants had been intercepted, but strongly opposing "any disclosure of this technique and program."

By the time Lieutenant General Lew Allen, Jr., took charge on August 15, the Puzzle Palace seemed under siege. Abandoned by the CIA to carry on alone the illegal BNDD drug-targeting program, the Agency, fearing exposure, had reluctantly dropped the project in June. Now that its once-impregnable wall of secrecy was further threatened by court scrutiny, it decided to bury the evidence. Although the Agency ordinarily keeps its material for at least five years, the decision was made in late August or early September to destroy everything related to the drug operation — not only the product, but all internal memoranda and administrative documents. By the middle of September not a single piece of paper remained to link the Puzzle Palace to the operation.

The immediate problem now was how to handle Judge Keith.

Following his eye-opening meeting on August 28 with NSA officials, Assistant Attorney General Petersen, on September 4, notified Attorney General Elliot Richardson of the operation, "of which we had no previous knowledge." In the meantime, prosecutors asked for an extension of time on the judge's order for sworn statements from the various agencies, citing the court's unusual requirement for affidavits from sensitive federal agencies not under Justice Department jurisdiction.

The continuance granted, Petersen next directed a memorandum to FBI director Clarence M. Kelley, requesting to be advised by September 10 of "the extent of the FBI's practice of requesting informa-

tion intercepted by the NSA concerning domestic organizations or persons for intelligence, prosecutorial, or any other purposes." In addition, Petersen wanted Kelley's thoughts on how NSA's intercept program was affected by the decision in a relevant case, *United States v. United States District Court* (commonly known as the *Keith* case) handed down more than a year earlier. In the *Keith* decision, the Supreme Court, while recognizing the President's constitutional duty to "protect our Government against those who would subvert or overthrow it by unlawful means," held that the power inherent in such a duty does not extend to the authorization of warrantless electronic surveillance deemed necessary to protect the nation from subversion by *domestic* organizations. Still at issue, however, was whether the Executive has the constitutional power to authorize electronic surveillance without a warrant in cases involving the activities of *foreign* powers or agents.

Because Minaret did entail warrantless electronic surveillance against some domestic organizations, including the Weathermen, Keith appeared to cast doubts on the legality of the operation, unless it could be shown that the groups were acting in concert with a foreign power.

On September 10 Kelley responded, informing Petersen that the FBI had requested intelligence from NSA "concerning organizations and individuals who are known to be involved in illegal and violent activities aimed at the destruction and overthrow of the United States Government." With regard to Keith, the FBI director engaged in semantic somersaults: "We do not believe that the NSA actually participated in any electronic surveillance, per se, of the defendants for any other agency of the government, since under the procedures used by that agency they are unaware of the identity of any group or individual which might be included in the recovery of national security intelligence information." (Emphasis supplied.)

Kelley seemed to have conveniently forgotten that the FBI and the other agencies had, in fact, submitted to NSA those very names and identities as part of the watch lists.

Petersen next advised Richardson that the current number of individuals and organizations on NSA watch lists submitted by the FBI was "in excess of 600" and warned of the numerous legal problems involved. He recommended that

the FBI and Secret Service be immediately advised to cease and desist requesting NSA to disseminate to them information concerning individuals and organizations obtained through NSA electronic coverage and

that NSA should be informed not to disclose voluntarily such information to Secret Service or the FBI unless NSA has picked up the information on its own initiative in pursuit of its foreign intelligence mission.

Four days earlier, on September 17, NSA director Allen had decided himself to warn the FBI and the other watch list agencies of the "ever-increasing pressures for disclosure of sources by the Congress, the courts, and the press." Adding "Naturally I am concerned ultimately for the protection of highly vulnerable SIGINT sources," Allen asked each watch list supplier to "review the current list your agency has filed with us in order to satisfy yourself regarding the appropriateness of its contents."

After reviewing the Petersen memorandum, Attorney General Richardson, on October 1, directed FBI director Kelley and the Secret Service to cease requesting information obtained by NSA by means of electronic surveillance and also requested that his approval be sought before either agency renewed requests to the NSA for foreign intelligence or counterespionage information.

Then he turned to General Allen. "It has recently come to my attention for the first time," Richardson wrote, "that your Agency is disseminating to the Federal Bureau of Investigation and the Secret Service information obtained by NSA by means of electronic surveillance." Citing the Keith decision, he indicated that he found the watch list activity to be of questionable legality, and requested that NSA "immediately curtail the further dissemination" of watch list information to the FBI and Secret Service, although "relevant information acquired by you in the routine pursuit of the collection of foreign intelligence information may continue to be furnished to appropriate Government agencies."

Three days later Allen responded, saying that he had "directed that no further information be disseminated to the FBI and Secret Service pending advice on legal issues." As might be expected, he made no effort to inform the Attorney General that the Agency had, only four months earlier, abandoned an even more questionable eavesdropping operation, the BNDD drug-targeting program. Nor did he happen to mention that the Agency was continuing an operation that was almost certainly illegal — Shamrock.

Meanwhile, as Allen, Richardson, and Petersen were exchanging worried notes, the prosecution in Detroit was in a shambles. On September 12, U.S. Attorney Ralph B. Guy, Jr., notified Judge Keith that the government wished to submit for *in camera* inspection an affidavit from an unspecified federal agency. After pointing out that

the interception referred to in the affidavit involved a sensitive national security matter and had no effect on the prosecution of the case, Guy then shocked attorneys for the Weathermen by declaring that if the court ruled that the affidavit must also be shown to the defense, then the government would request return of the document and "the liberty to exercise their option to dismiss the proceedings." But after consideration, the prosecution decided that even this was too dangerous an option, and on October 15, as Judge Keith was still considering the *in camera* issue, the government threw in the towel and moved to dismiss the case without argument, rather than risk exposure of NSA's involvement.

Once again the NSA managed to remain unseen, but the cost of maintaining its wall of anonymity was growing very expensive. Not only had the Justice Department been forced to drop a case it had spent almost three years building, but for the first time an Attorney General had become involved in an Agency operation — and his reaction had been decidedly unenthusiastic. Closer to home, the Puzzle Palace was again forced to drop an operation; Minaret was terminated shortly after the confrontation with Richardson.

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No one knew the high cost of anonymity better than Lou Tordella. As deputy director for the past fifteen years — so long a tenure was unheard of in the intelligence community — the lanky, soft-spoken mathematician had led the fight to keep the letters N-S-A from the pages of the New York Times and the lips of Walter Cronkite. It was his trowel that would apply mortar to the slightest crack in the wall and his sword that would send inquisitors scurrying. Where a magician might be able to make a rabbit disappear, Tordella made an entire federal agency disappear.

But the times were slowly changing. The buffeting by the courts and the Attorney General had taken the shine from his sword; even dulled it a bit. Worse, the once lip-sealing incantation "national security" had been stripped of much of its magic by the Senate Watergate Committee. Even the all-powerful chant "codes and ciphers" had been shown to be somewhat hollow by the Pentagon Papers case. Tordella was running out of mortar.

He was also running out of time. Shortly after the scuttling of Minaret, the sixty-two-year-old master cryptologist announced his plans to retire, effective December 31, 1973, but agreed to remain on the job until a successor was chosen. That happened on April 21, 1974, when Benson K. Buffham was selected to become deputy. One month earlier, on March 22, during ceremonies held quietly at

the Pentagon, Tordella became the seventeenth person to receive the coveted National Security Medal.\* Since it was first established by executive order in 1953, only three other NSA officials have received the top intelligence award: SIS founders William F. Friedman and Frank B. Rowlett; the Agency's first vice director, Joseph N. Wenger; and, in ceremonies on February 23, 1981, former director Bobby Inman.

Although retired, Tordella followed the pattern set by many senior Agency officials and simply turned around and became an NSA consultant. The number of such transitions once led an Agency old hand to observe, "Old NSA officials never die; they simply become consultants."

Known as "Buff" to his old friends in PROD, Benson Buffham started out, like many others in the business, with the Army Security Agency shortly after the start of World War II. He then spent most of his career working his way up in the Production Organization and became its deputy chief in the mid-1960s. During the early Nixon years he represented the Agency on such dubious committees as the Interagency Committee on Intelligence and the Intelligence Evaluation Committee. In 1971 he was appointed deputy director for Plans and Programs and was replaced in PROD by the gun-toting Milton Zaslow.

Along with his corner office next to the director on Mahogany Row, Buffham also inherited Tordella's trowel and sword. Neither was needed, however; the assaults that were so frequent in the early part of the decade appeared to have ceased. But the calm was deceiving. On December 22, 1974, hairline cracks again began forming in the protective wall surrounding the Puzzle Palace.

On that day, Seymour Hersh lifted the lid on intelligence abuses when he reported in the *New York Times* details of Operation Chaos, the supersecret and highly illegal CIA spying program directed against Americans. The storm of outrage that followed sent Congress screaming for investigations and the spook community running for cover.

Hoping to blunt any Capitol Hill offensive and at the same time show token concern over the abuses, President Gerald R. Ford, on January 4, 1975, set up a milktoast commission headed by Vice President Nelson A. Rockefeller. The Commission on CIA Activities Within the United States, better known as the Rockefeller Commission, gave the CIA a one-eyed lookover. The seriousness and vigor of the com-

<sup>\*</sup> Among the other winners were General Walter Bedell Smith, J. Edgar Hoover, General William Donovan, Ambassador Robert Murphy, Allen Dulles, John McCone, Admiral William Raborn, Desmond FitzGerald, Arthur Lundahl, and Lawrence R. Houston. ("Dr. Louis W. Tordella Honored with National Security Medal," National Security Agency Newsletter [April 1974], p. 4.)

mission was demonstrated by one member, former governor Ronald Reagan, who, after leaving before the conclusion of the opening session, managed to miss three of the next four weekly meetings. Busy stumping the rubber-chicken circuit, he could not afford even a visit to commission headquarters for more than a month after the panel's creation.

Focusing on the narrow issue of whether or not the CIA had violated specific laws, the commission left the Puzzle Palace almost untouched. On the few occasions where the CIA and the NSA operations overlapped, the final report simply glossed over the issues. In a brief paragraph devoted to the watch list program, the NSA was obliquely referred to as "an international communications activity of another agency of the government." On another occasion, referring to CIA support of the NSA drug watch list operation, the commission wrongly reported that "the Director and other CIA officials instructed involved personnel to collect only foreign intelligence and to make no attempt — either within the United States or abroad — to gather information on American citizens allegedly trafficking in narcotics." As the Senate Intelligence Committee later discovered, the CIA had, in fact, directly targeted American citizens on the drug watch list for the NSA.

Less kindly disposed toward the Puzzle Palace was the select committee set up in the House, under New York Democrat Otis Pike, with a mandate to look into the whole intelligence community.

As a starting point in its brief examination of NSA, the committee requested the Agency's "charter," National Security Council Intelligence Directive No. 6. Immediately, there was resistance. When Albert C. Hall, an assistant secretary of defense and the Pentagon's intelligence czar, showed up before the committee on August 7, 1975. minus the NSCID, Pike exploded. "It seems incredible to me, very frankly," he said, "that we are asked to appropriate large amounts of money for that agency which employs large numbers of people without being provided a copy of the piece of paper by which the agency is authorized." The committee then voted 10 to 0 to subpoena the document.

More forthcoming was beleaguered CIA director William E. Colby when he testified the following day. Under questioning by Wisconsin Democrat Les Aspin, Colby, almost by inadvertence, let slip the first public acknowledgment of NSA's eavesdropping on international communications. Replying to Aspin, Colby agreed that NSA listens in on "communications that go abroad from the United States or are abroad."

"Does that involve American citizens on one end?" pressed Aspin. "On some occasions," Colby admitted, "that cannot be separated from the traffic that is being monitored. It's technically impossible to separate it."

Possibly feeling he had gone too far already, Colby turned aside further questioning on the subject by saying, "I really think we would do better to discuss this in executive session."

But Colby and Hall were teasers; the main event was scheduled for August 8. At six minutes past ten o'clock on that Friday morning, a tall, bespectacled, ramrod-straight Air Force lieutenant general stood up behind the witness table and raised his right hand. For the first time in history an NSA director was about to testify publicly, before an open congressional hearing. Lew Allen, Jr., was about to give the world its first tantalizing peek into the Puzzle Palace.

After pointing out to the committee that "no director of the National Security Agency has ever before been required to come before a congressional committee in open session," Allen read a seventeen-page statement consisting mainly of a brief history of the Agency and a listing of congressional and Executive Branch studies and reports NSA had participated in. Calling the Agency's SIGINT and COMSEC operations "uniquely vulnerable to compromise," and recalling that several years earlier McGeorge Bundy, in testimony before the Senate, identified SIGINT as "one of six activities which he believed constituted 'real secrets,' "Allen concluded by requesting that all questions relating to NSA's operations be held for closed session.

It was the question-and-answer session that the administration feared the most. Just two days earlier Colby had acknowledged NSA's international eavesdropping. Hoping to avoid another such disclosure, White House emissary John O. Marsh, Jr., met with Chairman Pike only a few minutes before the session was to start and advised him that the area they were getting into "involves extremely sensitive information" and that Allen's testimony should be treated as "top national security."

Despite the White House plea, there was a brief round of questions. NSA general counsel Roy Banner, accompanying Allen, was asked whether he felt that, although wiretapping is prohibited by law, interception of telephone calls of American citizens heading overseas is not prohibited. Banner's answer: "That is correct."

During four hours in closed session in which the NSA chief was asked specifically about the Agency's eavesdropping activities, Allen consistently took the position that "at the present time" the Agency was not listening in on domestic or overseas calls placed by Americans.

But the testimony was unconvincing and caused Chairman Pike to comment "I do not fully accept that" and point to Colby's statements of the previous Wednesday.

The real problem was actually one of casuistry. The NSA has always maintained that eavesdropping occurs only when a person is "targeted," not merely when his or her communications are intercepted, even though that same nontargeted intercept may eventually be recorded, transcribed, and disseminated to other agencies.

Despite his debut before the Pike Committee, Allen knew that the real test would be in the tug of war the Agency was waging with the Senate Intelligence Committee and its chairman, Senator Frank Church. During the summer and early fall, the Church Committee had been hearing testimony in executive session from both current and former Agency officials, and the mood was growing less and less cordial. Of the witnesses to be called, probably the most sensitive was to be the chief of G Group, the organization that ran most of the Agency's domestic operations. But the current chief of G Group had been on the job for barely six months, and the Agency, feeling that he lacked the background to field the committee's tough questioning, sent him on a "panic" trip to Europe.

Six months earlier Frank Raven had retired from the Agency after heading G Group since its inception almost fifteen years before. Now Director Allen needed him back. "We have a real problem with our testimony for the Church Committee," he told Raven in a telephone call, and then asked him to appear as the witness for the questions about G Group's activities. Raven reluctantly agreed.

Throughout his thirty-five-year career in NSA and its predecessors, Frank Raven had suffered from a syndrome that remains endemic in the Puzzle Palace — a reluctance to comment on world events out of fear of inadvertently revealing information picked up through SIGINT. When conversations at social events turned to the Middle East or the latest coup in South America, he would suddenly clam up — which would inevitably provoke his wife, who called him by a family nickname, to issue the gentle admonition: "Philly, talk!"

Now, as he was getting out of his car to begin his first day before the closed Church Committee hearings, his wife issued a new admonition: "Philly, keep your damned mouth shut!"

Throughout the first day, as he sat in the rear of the hearing room waiting to be called, Raven had a chance to listen to the testimony of other NSA officials, and he was growing increasingly perturbed. "They were hanging NSA," he recalled. "NSA was getting deeper and deeper in trouble, and NSA didn't deserve it. They were on

the defensive. Instead of trying to cooperate with the committee, and trying to find out what had happened, and who had done what, they had a chip on their shoulder and they were fighting the committee every inch of the way."

Seated at the witness table as each official was called to testify were Roy Banner and Juanita Moody, who was responsible for liaison with the rest of the intelligence community as well as the distribution of all SIGINT. "Now, as I sat there that afternoon," Raven recalled, "the guy who was the witness knew the answers to the questions that they were asking. Roy Banner and Juanita Moody didn't. If the guy had been permitted to give the answers—the truth—there wouldn't have been any problems . . . but the two of them [were] putting in all kinds of . . . asinine legal objections and questions and quibbling over the questions and quibbling over answers, and they didn't know what they were talking about."

Frustrated by the Agency's attempt to muzzle the witnesses, Raven, who was due to take the stand the next day, called General Allen's office and issued an ultimatum: if the Agency wanted his testimony, it first would have to issue a direct order from General Allen forbidding anyone else from NSA from speaking unless he — Raven — asked him or her for advice. He would answer all direct questions from the committee, and if he needed help or a legal opinion, he would ask for it. "I wasn't going to have staff types," said Raven, "who didn't know what my answer was going to be, cutting in and quibbling over the legal technicalities of the NSA charter and the CIA charter and such, when they had no idea of what I was going to say."

Raven got his order, and the next day neither Banner nor Moody appeared; rather, they sent assistants, who remained silent during the former G Group chief's testimony. The result, apparently, was unexpected candor. At one point, Senator Walter F. Mondale asked Raven how long he had been familiar with Operation Shamrock. "Well, you might consider me a Johnny-come-lately," he responded. "I was on the problem in 1940, and I had been off and on it since 1940." Later Raven recalled, "I thought Mondale would choke! . . . He said I was the first person he had met who would admit they had known any of these problems over five years."

In looking back on the experience, Raven believed that NSA had been wounded badly in the committee hearings primarily because it had "too defensive an attitude and [was] trying to fight the committee rather than get the truth on the table."

In early October, that fight intensified when Senator Church announced that the committee intended to hold two days of public

hearings on NSA improprieties and abuses — and that among the witnesses to be called was General Allen.

On Tuesday, October 7, the day before the hearings were to begin, the administration flew into a panic and launched an intense, last-minute campaign to get the committee to halt the hearings. That morning President Ford personally telephoned Senator Church to explain the dangers of public disclosure of NSA operations. Ford then followed up the phone call by dispatching Attorney General Edward H. Levi to a closed committee meeting with a more detailed appeal. Next, Senator Barry M. Goldwater, vice chairman of the committee, proposed that the public hearings be dropped completely. The Goldwater proposal was narrowly defeated by a vote of 5 to 4. At last, against the wishes of the committee chairman, the members voted, 6 to 4, simply to "defer" the hearings, pending further meetings with administration officials.

The reprieve was brief. On October 23 the committee reversed itself and voted in favor of public hearings on NSA, to begin six days later. On October 29, accompanied by General Counsel Roy Banner and Deputy Director Benson Buffham, General Allen entered through the carved double doors of Room 318 in the Russell Senate Office Building and gave the senators, a hushed audience, and the world their first public look at an NSA SIGINT operation. So implausible was the scene that it led Allen at one point to the conclusion that by his giving public testimony he was committing a felony in violating the COMINT statute.

Allen limited NSA's mea culpa to the watch list program and Operation Minaret, which, he admitted, eventually had a "significantly reduced" intelligence value because of the very restrictive controls placed on the handling of the material. Nevertheless, he did point out that as a result of the programs "a major terrorist act in the U.S. was prevented" (presumably a plot, involving Palestinian terrorists, aimed at American Jews) and "some large drug shipments were prevented from entering the U.S." In all, the NSA director told the panel, the BNDD watch list contained about 450 Americans and over 3000 foreign individuals; the Secret Service, about 180 American people and groups and about 525 foreign individuals and groups; the FBI, about a thousand U.S. and about 1700 foreign; the CIA, about 30 Americans and 700 foreign individuals and groups; the DIA, about 20 U.S. individuals.

Over the six-year period between 1967 and 1973, Allen estimated, the Agency had issued about 3900 reports concerning the approximately 1680 watch-listed American citizens, and about 10 percent

of these involved Americans on both ends of the circuits, but in all cases at least one terminal was on foreign soil.

In the questioning that followed, the most eye-opening admissions had to do with the way in which the NSA officials viewed the legal system as it applied to the Agency.

Leading off the questioning, chief counsel for the committee, F. A. O. Schwartz, Jr., pressed the director about the effect of the wiretap statutes on NSA eavesdropping. "You believe you are consistent with the statutes," the committee lawyer said to Allen, "but there is not any statute that prohibits your interception of domestic communications."

Allen replied, "I believe that is correct."

Later, Senator Mondale, questioning Deputy Director Buffham about his role in the Huston Plan, asked whether he had ever been concerned about the legality of the portion of the plan that would have authorized NSA to expand greatly its targeting of American citizens.

"Legality?" Buffham asked, perplexed. "That particular aspect didn't enter into the discussions."

Turning to the Agency's chief lawyer, Roy Banner, Mondale asked whether, in his opinion, the watch list was legal. "I think it was legal in the context of the law at the time," responded the general counsel.

When Chairman Frank Church interrupted with the suggestion that all questions regarding legality be reserved for the committee's questioning of Attorney General Levi, Mondale said: "I think that is important to the determination of this committee of how these laws are interpreted. I believe they still think it is legal. That is what worries me."

"May I make just one comment, Mr. Chairman?" Banner interrupted. "There is one court decision on the matter. It was held in that decision to be lawful."

"Then you think it is lawful? That is what it held?" pressed Mondale. "I think it was lawful at the time," Banner responded.

"That is just my point," Mondale shot back. "They still think it is legal."

Finally, Church cut off the discussion once and for all.

The fact that the top three officials of the Agency all agreed that NSA exists somewhere in an extralegal limbo, unrestrained by the same laws and statutes that govern the rest of the nation, was made all the more significant when weighed alongside an earlier question by Pennsylvania senator Richard Schweiker. Asked whether it would be possible to use NSA's watch list and massive technological capabil-

ity "to monitor domestic conversations within the United States if some person with malintent desired to do it," Allen replied, "I suppose that such a thing is technically possible."

Once the questioning came to an end, the trio was excused, and the committee turned to another NSA operation, of which the Ford administration vehemently opposed any public mention: Shamrock. Although the White House had reluctantly agreed to allow Director Allen to appear as a witness with regard to the watch lists and Minaret, Shamrock was a whole other ball game. Nevertheless, the committee voted to release a report on the project, a report considered SECRET/COMINT CHANNELS ONLY by NSA, and on November 6, 1975, Senator Church read it into the record.

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Unfortunately for the Puzzle Palace, the Church Committee was not the only body interested in Shamrock. Prompted by a July 22, 1975, article in the New York Daily News, charging that for at least five years the FBI and the NSA routinely monitored commercial cable traffic to and from the United States, the House Government Operations Subcommittee on Government Information and Individual Rights began an investigation. Authority for the inquiry was based on the subcommittee's oversight responsibilities "for matters concerning the rights of privacy of American citizens and for the operations of the Federal Communications Commission."

The Ford administration and the NSA may have looked at the Pike and Church Committees with considerable apprehension; they viewed the Government Information Subcommittee and its behatted chairwoman, Bella S. Abzug, with downright horror. Where the two intelligence committees were somewhat predictable in their investigations, the Abzug Subcommittee was like an ammunition-laden cargo plane out of control. It had decided, shrewdly, not to seek information directly from the Puzzle Palace but, instead, to call on the testimony of officials from the international communications companies who either knew about the operation or had participated in it. Whereas the NSA might be able to hide behind the shields of classification and executive privilege, the same protection was not available to private corporations.

Initially, the subcommittee received considerable cooperation from both the companies and Joe Craig, a former FBI agent identified as one of the alleged bagmen. But on October 21, two days before the first public hearings were to begin, the support began crumbling. It was apparently on that date that the administration first became

aware of the Abzug investigation, and it launched a massive counterattack. A letter from FBI director Kelley said that, because the matter in question "is under investigation," he had forbidden former agent Craig from testifying. At the same time, RCA Global and ITT World Communications suddenly informed the subcommittee that they would refuse to send officials unless so ordered by a subpoena.

On the day before the start of the scheduled hearings, a platoon of officials from the White House, NSA, Pentagon, and Justice Department converged on the chairwoman in an effort to change her mind about holding public sessions. In the delegation were NSA director Allen, Pentagon intelligence chief Albert Hall, Deputy Attorney General Harold Tyler, Special Counsel to the President John Marsh, and White House congressional liaison Charles Leppert. Their argument was that such hearings would jeopardize either a current Justice Department criminal investigation or the national security.

Unimpressed, Abzug refused to cancel or postpone the hearings. So in a last-ditch effort, only moments before the congresswoman gaveled the hearing to order, Attorney General Levi came to the hearing room and tried his own appeal. He fared no better than the others, and at eleven o'clock on October 23, 1975, the hearings began as scheduled — but without the main witnesses. With Craig and the cable companies awaiting subpoenas, the only testimony came from two representatives of AT&T and one of its subsidiaries, Chesapeake & Potomac Telephone Company.

Conceding the first round to the administration, the combative New York Democrat offered both Allen and Levi a chance to come before the committee and state their case for the record. Both refused. In the meantime, the Church Committee had released its findings on Operation Shamrock, but, feeling that the report did not go far enough, the Abzug Subcommittee decided to continue its own inquiry.

On February 4, 1976, subpoenas were issued to three FBI special agents, one former FBI special agent, one NSA employee, and executives of ITT World Communications, RCA Global, and Western Union International.

Two weeks later, on February 17, in an extraordinary and unprecedented expansion of the doctrine of executive privilege, President Ford notified Defense Secretary Donald Rumsfeld and Attorney General Levi that, because the subpoenas also called for records "containing the most sensitive national security information," he was instructing them to notify the subpoenaed parties that they should "decline to comply."

The following day Rumsfeld instructed the NSA employee, and

Levi instructed the present and former FBI agents, that, inasmuch as President Ford has asserted executive privilege in the matter, the subpoenas were not to be complied with. Then, for the first time in history, the concept of executive privilege was extended to a private corporation: Attorney General Levi, in a letter to the attorney for Western Union, wrote, "On behalf of the President, I hereby request that Western Union International honor this invocation of executive privilege."

With the stage set for a major battle between the Congress and the Executive Branch, on February 25 the Manhattan congresswoman once again called the hearings to order. Joe Craig was the first to be called. After first requesting that he not be subjected to radio, television, or still-photography coverage, he told the panel that, because the Attorney General had instructed him not to testify in response to the subpoena, "I must respectfully decline to testify before your subcommittee at this time."

The pattern was repeated by the next three witnesses, all current FBI employees. Finally, the subcommittee turned its attention to Joseph J. Tomba, a dark-haired, middle-level NSA employee in his midthirties. An engineer with sixteen years of service at NSA, he had been recruited during his senior year at West Virginia University in 1960. Assigned to the C1 Group in PROD during the mid-1960s, he eventually was promoted to a supervisory position after completing the Agency's General Organization Management, Supervisory Level Course (MG-110). In 1970 he may have taken over management of Shamrock from Mr. Feeney, who had held the position for eighteen years, from the time NSA inherited the program from the Armed Forces Security Agency in 1952. So compartmented was the program that besides the middle-level manager, the only other persons exercising responsibility over the operation were the director and deputy director.

Like his predecessors, Tomba sought refuge behind executive privilege, but not before he drew the ire of the subcommittee with a brief opening statement. "General Allen has asked me to convey to you," he told a surprised Abzug, "his willingness to attempt to meet the requirements of your subcommittee along with the necessary safeguards applicable to any classified information. To this end, his staff is available to work with your people to define more precisely your exact information requirements."

"I certainly appreciate your bringing that message to us personally," the chairwoman responded after stating that the subcommittee already had invited the general on several occasions, "particularly since it

is quite obvious that apparently no telephone communication can be made without interception."

A few minutes later, by a vote of 6 to 1, the subcommittee voted to recommend to the full committee that all five witnesses be cited for contempt of Congress.

Stonewalled by the government, the subcommittee next turned to the telegraph companies. On March 3, Thomas S. Greenish, executive vice president of Western Union International, testified before the panel and turned over an eight-year-old list of NSA targets, an action that President Ford had vigorously attempted to block by asking the corporation to honor his all-embracing claim of executive privilege.

Following Greenish to the witness table was Howard R. Hawkins, chairman of the board and chief executive officer of RCA Global Communications, along with several of his subordinates. Their testimony represented still another defeat for the administration. Attorney General Levi had earlier asked, "on behalf of the President," that representatives of the corporation neither testify before the subcommittee, nor produce documents, "until procedures can be agreed upon to assure that the President's invocation of executive privilege is not effectively undone." Defying the President and Attorney General, Greenish and his associates went ahead with their testimony and also produced an assortment of records.

About a week later, George Knapp, president of ITT World Communications, and several other employees testified about Shamrock. The administration seems to have thrown in the towel; it made no attempt to prevent their appearance.

After the hearings, the subcommittee staff began work on a draft report, to be issued by the Government Operations Committee, which examined the NSA's eavesdropping activities on communications entering and leaving the country. But a controversy soon arose over whether the report should be released, and, following its completion in the fall of 1977, the decision was made to bury it quietly.

Entitled "Interception of International Telecommunications by the National Security Agency," the draft report pointed to the NSA's "extraordinary capability to intercept" and concluded that "no other agency of the federal government undertakes such activity on such an immense scale." Calling the enormous secrecy surrounding the Agency "obsessive and unfounded," the report went on to charge that NSA's appeal to the Congress and the public that they simply "trust us" was totally unjustified when viewed in light of the Agency's long record of privacy violations.

The report was particularly critical of the Agency's constant at-

tempts to hide behind semantics. Pointing to a statement by Vice Admiral Bobby Inman, General Allen's successor as DIRNSA, in which he stated: "Let there be no doubt . . . there are no U.S. citizens now targeted by NSA in the United States or abroad, none," the report called the declaration "misleading." It added that, "while an American citizen or company might not be targeted by name, by virtue of his international activities, his communications might be selected by the NSA on the basis of its 'foreign intelligence' criteria. The NSA has not denied that it, in fact, 'selects' U.S. messages of this nature."

Although spared the final indignity of a public report on Shamrock by the Abzug Subcommittee, the Puzzle Palace was not yet out of the fire. Prompted by the Rockefeller Commission's allegations of questionable activities on the part of the intelligence community, Attorney General Levi established a top secret task force to investigate the commission's findings and determine whether any other questionable electronic surveillances may have been conducted. Among the areas looked at were several NSA operations, including Shamrock and Minaret.

It was the first time that any law enforcement agency had ever been charged with investigating the legality of SIGINT operations, and the reaction within the intelligence community was predictably hostile. Noting that "attitudes ranged from circumspection to wariness," Dougald D. McMillan, author of the task force's final report, wrote that "one typically had to ask the right question to elicit the right answer or document." He pointed out that "it is likely, therefore, that we had insufficient information on occasion to frame the 'magic' question. One also had to ascertain the specific person or division to whom the right question should be addressed, since compartmentalization of intelligence-gathering often results in one hand not knowing what the other is doing."

Nevertheless, over the course of twelve months, the hand-picked, specially cleared team of Justice Department lawyers gradually pulled back layer after layer of secrecy cloaking some of the NSA's most advanced eavesdropping technology and supersecret processing techniques. The final report of the task force, classified TOP SECRET UMBRA/HANDLE VIA COMINT CHANNELS ONLY, and excluded from declassification, was considered so sensitive that only two copies were ever printed. On its completion, on June 30, 1976, the 175-page legal-size document was delivered to George W. Calhoun, chief of the Special Litigation Unit, who drafted the equally sensitive fifty-page "Prosecutive Summary" for Benjamin R. Civiletti, the assistant attor-

ney general in charge of the Criminal Division, and his assistant, Robert L. Keuch.

In the end, despite the fact that the task force had managed to uncover no fewer than twenty-three different categories of questionable electronic-surveillance activities involving the NSA, CIA, and FBI, the report concluded with the recommendation that "the inquiry be terminated in all respects for lack of prosecutive potential." Acquittal

Of the twenty-three categories of "questionable activities," five were barred from prosecution by the statute of limitations and seven "clearly possess no prosecutive potential." As for the rest: "There is likely to be much 'buck-passing' from subordinate to superior, agency to agency, agency to board or committee, board or committee to the President, and from the living to the dead."

In addition, calling the subject matter of the report "an international cause célèbre involving fundamental constitutional rights of United States citizens," the task force pointed to the likelihood of graymail and the possibility that defense attorneys would probably subpoena "every tenuously involved government official and former official" to establish that authority for the various operations emanated from on high. "While the high office of prospective defense witnesses should not enter into the prosecutive decision," the report noted, "the confusion, obfuscation, and surprise testimony which might result cannot be ignored."

Rather than point a finger at any one official or any one agency, the task force instead indicted the national security system as a whole, a system that granted the agencies "too much discretionary authority with too little accountability . . . a 35-year failing of Presidents and the Congress rather than the agencies."

While on the one hand charging that those NSA, FBI, and cable company employees who participated in Shamrock apparently violated several sections of the Communications Act of 1934, the "Prosecutive Summary" pointed to NSA's highly secret Executive Branch "charter," NSCID No. 9 (later NSCID No. 6), which gave the Agency virtual carte blanche to disregard legal restraints placed on the rest of the government. "Orders, directives, policies, or recommendations of any authority of the Executive branch relating to the collection . . . of intelligence . . ." the still top secret document reads, "shall not be applicable to Communications Intelligence activities, unless specifically so stated." The summary concluded: "Its birth certificate (which was, by the way, top secret) said it did not have to follow the limitations in the NSES [National Security Electronic Surveillance] area that lim-

ited other agencies unless it was expressly directed to do so."

Another reason for recommending against prosecution with regard to Shamrock was far less complex: "It is not illegal to 'ask' a company to give out copies of cables. If the company complies, it may be violating the statute but the recipient would not."

Thus, the invaders were once again driven off. In the six years since Daniel Ellsberg fired the opening volley with the Pentagon Papers, to the March 4, 1977, Justice Department recommendation against prosecution, the Puzzle Palace had undergone attacks from the press, the courts, the House, the Senate, the White House, the Attorney General, and the special Justice Department task force. In the process the Agency had been forced to abandon several operations, make its first public statements, and at last acknowledge that its functions include more than "protecting the security of U.S. communications." But to those inside the triple fence, worst of all was the sudden realization that their wall of anonymity was no longer impregnable.

"We may as well get used to it," one long-time senior official wrote in an article published in a TOP SECRET/COMINT CHANNELS ONLY inhouse publication; "used to feeling exposed and unprotected at moments when our accustomed and familiar anonymity seems to be snatched away." Hoping that their "time of indecent exposure" had at last come to an end, but realizing that they may have seen only the beginning, she concluded: "Packs of hungry animals of various breeds, having caught the scent, are out there gnawing at the foundations of the storehouses, sniffing and rooting for more beans."

## PARTNERS

"DEPENDENCE is so great and co-operation so close that I am convinced security chiefs would go to any lengths to protect the link-up . . ."

The "link-up" that veteran British journalist Chapman Pincher referred to is quite likely the most secret agreement ever entered into by the English-speaking world. Signed in 1947 and known as the UKUSA Agreement, it brought together under a single umbrella the SIGINT organizations of the United States, Britain, Canada, Australia, and New Zealand. Under the pact, the five nations carved up the earth into spheres of cryptologic influence, each country assigned specific targets according to its potential for maximum intercept coverage. Britain, for example, was assigned various Chinese frequencies to cover from its Little Sai Wan station in Hong Kong, and the United States was responsible for other frequencies from its listening posts in Taiwan, Japan, and Korea.

The UKUSA nations also agreed to standardize their terminology, code words, intercept-handling procedures, and indoctrination oaths, for efficiency as well as security. Vipar, Trine, and Umbra, therefore, would appear on the TOP (or MOST) SECRET documents and intercepts, regardless of which member originated them. The voluminous looseleaf binder that contains these rules and procedures is known as the IRSIG — for International Regulations on SIGINT.

The UKUSA Agreement, whose existence has never been officially acknowledged by any country even today, had its beginnings in the violent summer of 1940. France had collapsed under the weight of Hitler's mechanized war machine, and by August the Luftwaffe had begun pounding the airfields of southern England. The Battle of Britain had begun, and Winston Churchill could offer his countrymen nothing but "blood, toil, tears, and sweat" as the Royal Air Force put up its magnificent defense.

Churchill's words were gallant, but he knew that it would take more

than blood and sweat if England were to survive. It was a far different kind of war from any that had ever been fought before, one that he would later call a "Wizard War," a war fought as much with science as with gunpowder.

It was for this reason that Churchill directed the British ambassador to Washington, Lord Lothian, to undertake negotiations of the utmost delicacy with the American President. On July 8 the Ambassador met with President Roosevelt and offered to reveal highly secret technical information about England's latest developments in radar and several other scientific fields in which America was considerably behind. The offer was made formal two days later in a letter from Lord Lothian to the President. "Should you approve the exchange of information," the letter read, "it has been suggested by my Government that, in order to avoid any risk of the information reaching our enemy, a small secret British mission consisting of two or three Service officers and civilian scientists should be despatched immediately to this country to enter into discussions with Army and Navy experts."

In the world of diplomacy, magnanimous offers are the rarest of things. It was therefore no surprise that the letter included an implied quid pro quo. "His Majesty's Government," the letter concluded, "would greatly appreciate it if the United States Government, having been given the full details of any British equipment or devices, would reciprocate by discussing certain secret information of a technical nature, which our technical experts are anxious to have, urgently."

Lothian undoubtedly would have liked to underline the last word. Roosevelt brushed aside a number of objections by a few high-ranking military officers, including General George C. Marshall, and opened the door for the arrival in late August of Sir Henry Tizard, adviser to Britain's Ministry of Aircraft Production. In his briefcase were MOST SECRET details on such advanced projects as radar, radar countermeasures, sonar, proximity fuses, and radio interception.

But one project was notably absent from Sir Henry's brown leather case: a project that was as important and vital to the ultimate survival of the island nation as its code name implied: Ultra. It was Britain's secret of secrets.

As the war was beginning to turn from lukewarm to hot, Britain had managed to acquire a working model of Germany's highest-level cipher machine, the Enigma. Although there are several versions of exactly how it was acquired, there is no debate that by August 1939 it was in the hands of a short, fiftyish Scotsman, Commander Alastair C. Denniston. He was one of Sir Alfred Ewing's original quartet of cryptologists who became the charter members of Britain's legendary

World War I codebreaking outfit known as Room 40 O.B. The taciturn commander was now in charge of England's equivalent of America's Signal Intelligence Service, the Government Code and Cypher School.

It was in August that Denniston and his tweedy band of intellects moved from Broadway, in the London borough of Westminster, to a gaudy, ornate red-brick mansion in Bletchley, a rural market town fifty miles north of London. With them they had taken Enigma — a small metal device that looked more like a cross between a switchboard and an old portable electric typewriter — and a mandate to find a way to determine which of a myriad combination of settings might have been used in any given batch of intercepts. The answer was an awe-inspiring lady known as "the Bronze Goddess."

The goddess was a bronze-colored column surrounded by a larger bronze-colored face and was quite probably the world's first electronic computer. Denniston and his Bletchleyites, particularly A. Dillwyn (Dilly) Knox, a tall, gangling young man with dark unruly hair, and Alan Turing, a brilliant young mathematician, had created the goddess; now they must teach her to speak.

Early in April 1940, four months before Sir Henry Tizard arrived in Washington with his stuffed briefcase, the Bronze Goddess uttered her first syllables: a few short Luftwaffe messages dealing with some personnel changes. They were of little immediate importance, but they had a significance then beyond imagination.

That Tizard made no mention of Ultra to his American counterparts on his journey was no oversight. The secret was Britain's greatest, and Tizard himself may not have known how successful Bletchley had been. In any case, Churchill saw no need to include cryptologic information in the Tizard exchange, since it was logically assumed that America had very little to offer in exchange.

By October, Churchill's attitude had changed. It was in that month that he learned for the first time of America's success in breaking Japan's high-level diplomatic code. He was duly impressed. Whereas his team at Bletchley had Enigma, a working model, to go on, William Friedman and his crew had had nothing but imagination.

Exactly how Churchill first became aware of the American achievement has never been revealed by either side, but by November a highly secret agreement had been signed by the neutral United States and a Britain fighting for her life. The agreement provided for "a full exchange of cryptographic systems, cryptanalytical techniques, direction finding, radio interception, and other technical communication matters pertaining to the diplomatic, military, naval, and air services of Germany, Japan, and Italy."

Picked to head an American mission to Bletchley was the dean of American cryptology, William F. Friedman. Together with one of his Army assistants, First Lieutenant Leo Rosen, and two naval officers, Friedman was to deliver to England not only two of America's seven Purple machines, but also two Red machines and a mixed variety of codes, including the U.S. Navy's radio intelligence manual.

The mission was to take place late in December, and on December 23, 1940, Friedman was placed back on active duty as a lieutenant colonel. He had successfully passed his medical exam several days earlier, although, fearing rejection for the mission, he had failed to inform the physicians of some psychological problems that had plagued him during his attack on Purple. It was a serious oversight.

Now, faced with a mission of tremendous importance, the delivery to war-torn England of America's most vital secret in return for Britain's most closely held secret, Friedman grew increasingly nervous and apprehensive.

On December 26, his orders were cut, directing him to report to the assistant chief of staff for G-2, and then to "proceed to London, England, reporting upon arrival to the Military Attaché for temporary duty, for the carrying out of the instructions of the Secretary of War." Then there was a delay in the mission, and Friedman's tension and anxiety became excruciating. He felt that once he arrived in England, he would be unable to function properly, and this exacerbated his depression. He began to consider suicide.

On Sunday, January 5, 1941, Friedman was admitted to the neuropsychiatric ward of Walter Reed Hospital with a diagnosis of psychoneurosis, a nervous breakdown.

The mission to England could not wait for Friedman's recovery, and his orders were officially cancelled on January 24. Taking his place was his long-time assistant, Abe Sinkov, now an Army major. Sinkov, accompanied by Captain Leo Rosen of the Army Signal Corps, and Navy Lieutenant Robert H. Weeks and Ensign Prescott Currier of Op-20-G, sailed to England with the two Purple machines as January began turning into February.

By the time the foursome were set to return, it appeared that the United States had given up a swordfish to catch a herring, though Sinkov and his associates may not have been aware of it.

They returned with an assortment of advanced crypto equipment, including the revolutionary Marconi-Adcock high-frequency direction finder, but no Enigma. In fact, the British probably did not even inform the Sinkov delegation of the extent of their successes against the German code. The problem was with the Foreign Office. Because

PARTNERS 313

of instructions from Lord Halifax, the delivery of Enigma had been vetoed on the grounds that it was against British policy to divulge high-level cryptologic secrets to anyone, regardless of the reason. Since the Foreign Office exercised supervisory powers over the intelligence and cryptologic agencies, the veto stuck.

Despite the imbalance in the trade, cooperation between the two countries continued to increase, climaxing in April 1943 when Colonel Alfred McCormack of the Special Branch, accompanied by Colonel Telford Taylor of Military Intelligence and a now fully recovered William Friedman, left for England on another extremely secret mission — this time for a two-month survey of British COMINT operations.

Now, for the first time, Britain decided to lift fully the thick veil that had long shrouded its deepest secret. As a result, America's Military Intelligence Service at last became completely aware of the amazing successes achieved by the British in their exploitation of German military traffic, their Ultra secret. Intelligence derived from this source had for some time been made available to both British and U.S. field commanders through a complex and highly secure procedure involving British intelligence liaison officers, known as special liaison officers, or SLOs. Ultra, however, had never been made available to Washington, which greatly hindered the work of the Special Branch in both short-range and long-range intelligence planning in the European theater.

The American trio was greeted at Bletchley by Royal Navy Commander Edward W. Travis, who had taken over the reins of a newly reorganized COMINT organization from Commander Denniston a year earlier. Travis, a bespectacled, stocky figure, was himself an enigma. Commanding a team of Oxford dons, Ph.D.s, and scientific marvels was a man who himself had never been to college. Travis had joined the Navy at the age of eighteen and had spent the better part of his career in the Signals Division. Now, at forty-five, he was leading England's greatest intellectual battle.

Under the reorganization, the Government Code and Cypher School became the Government Communications Headquarters, GCHQ, the name by which Britain's SIGINT organization is still known today, and all previously semi-independent departments, including the Naval Section and Air Section, were placed under one head.

Denniston returned to London, where he took charge of the diplomatic branch from an office "above Peggy Carter's hat shop," as the 7-9 Berkeley Street location was commonly known.

During their two-month stay at Bletchley, the team led by Colonel McCormack was given complete briefings on Enigma and Ultra. Displaying a 3-by-5-inch card captioned PERMIT TO ENTER BLETCHLEY PARK GROUNDS and stamped NOT VALID AFTER 30 JUN 1943, the three men would enter the secluded estate each day and discuss with their British counterparts the best ways to utilize the products of Enigma and Purple to their collective advantage.

The results of their efforts reached a climax on May 17 with the signing of a formal agreement of cooperation between the COMINT agencies of Britain and the United States, the BRUSA Agreement. The significance of the pact was monumental. It established for the first time intimate cooperation on COMINT of the highest level. It provided for exchange of personnel, joint regulations for the handling of the supersensitive material, and methods for its distribution. In addition, paragraph eight of the agreement provided that all recipients of high-grade COMINT, whether British or American, were bound to the severely strict security regulations that were appended to the document. The cooperation, procedures, and security regulations set out in the BRUSA Agreement serve as landmarks in the history of communications intelligence. Even today, they form the fundamental basis for all SIGINT activities of both the NSA and GCHQ.

In October 1943, the War Department issued its formal regulations conforming to the mandate of the BRUSA pact, which meant, among other things, the establishment of an entirely new lexicon of code words. Until the October regulations, COMINT was divided into three groups, depending on the importance of the enemy cryptographic system used. Intercepted messages enciphered in the enemy's highest code system were given the code name Dexter, the American equivalent of the British code word Ultra. Intercepts of a lesser importance were assigned the code word Corral, and the rather frightening Rabid was reserved mainly for T/A intelligence, or traffic analysis.

Now, however, because of the BRUSA Agreement, Britain and the United States sought to standardize both code words and terminology. Having at one time or another used such bizarre code words as Zymotic, Swell, and Sidar, the British had early in the war settled on Ultra, Pearl, and Thumb as the three mystic passwords in their descending order of importance.

The War Department contributed to the standardization at first simply by adding the British Ultra before each of the three U.S. code words and later by adopting Ultra, Pearl, and Thumb for its own COMINT material. (Pearl and Thumb were later dropped and replaced by the single code word Pinup.)

PARTNERS 315

The seriousness with which the department regarded its most sensitive form of intelligence can be seen in an October 1943 memorandum entitled "Security of Ultra Dexter Intelligence." The document, which before each paragraph contained the phrase "Burn After Reading," spoke of Ultra Dexter's "extreme importance." "If the enemy were to learn of the existence of this source," the memorandum warned, "it would probably be lost forever, and this would vitally affect operations on all fronts." Similar warnings were given for Ultra Corral and Ultra Rabid information.

The success of BRUSA quickly led to a series of conferences involving not only Britain and the United States, but the codebreaking agencies of Canada and Australia as well. At the second Joint Allied Conference, held at Arlington Hall Station on March 13, 1944, the participants included Colonel W. Preston Corderman, William F. Friedman, Abe Sinkov, and Solomon Kullback of the Signal Security Agency, and Carter Clarke and Telford Taylor of G-2. From GCHQ there was Commander Edward Travis, Leonard James Hooper (a future director), and Colonel John H. Tiltman, liaison officer to the SSA. Representing the Canadian Examination Unit was Lieutenant Colonel Edward M. Drake, who would head Canada's SIGINT organization until the early 1970s. Australia's Central Bureau, Brisbane, was represented by Captain S. R. I. Clark. In all, there were thirty-five persons attending what was surely one of the most secret conferences of the war.

By the time the long-awaited V-E Day arrived, the depth of the Anglo-American friendship could be seen in the dinner enjoyed by Friedman and the now-knighted Sir Edward Travis at Bletchley Park, a dinner whose menu included Potage Ultra, Poulet Arlington, Légumes à choix random, and, for dessert, Dolce Americo-Britannique à la mode Brusa.

After two years of compromising and negotiating, BRUSA was supplemented in 1947 by the five-power UKUSA Agreement, which, according to one report, established the United States as a first party to the treaty, and Britain, Canada, and Australia-New Zealand as second parties. NATO nations and such other nations as Japan and Korea later signed on as third parties. Among the first and second parties there is a general agreement not to restrict data, but with the third parties the sharing is much less generous.

Charged with keeping the delicate gears of cooperation well oiled throughout the 1950s was Friedman, who helped draw up the postwar blueprint of UKUSA as he had of the earlier BRUSA. Friedman's friendship with his British "cousins," as he would call them, was of

particular importance in March of 1952, when Sir Edward retired, at the age of sixty-four, after more than a decade at the top of Britain's cryptologic pyramid. "Leaving GCHQ with all that it means will naturally be a heart wrench," he wrote his old friend during his last few days, adding that it was "softened considerably by the fact that I know I am leaving behind me a first-class team and all things being equal the organization should continue to prosper." One of his sorrows, he told Friedman, was that he never expected to visit Washington again, primarily because of Britain's depressed economic state: "I see no hope in my lifetime of the U.K.'s financial position allowing me to pay visits to the dollar area at my own expense."

He was, unfortunately, right. Four years later, on April 18, 1956, Sir Edward died after an operation. He had victoriously led Britain's most secret and most important battle, a battle for which his King awarded him a knighthood, France made him a Chevalier de la Légion d'honneur, the Italians made him an Officer of the Crown of Italy, and the American President gave him his grateful nation's highest civilian award, the Medal of Merit. Yet he would remain as anonymous in death as he had been in life.

Taking over from Travis as head of GCHQ was Eric Malcolm Jones, C.B.E., who had sold textiles until he was thirty-three. In 1940 he joined the Royal Air Force Volunteer Reserves, where, presumably, he got his first taste of cryptology. After the war he transferred to GCHQ and now, one month before his forty-fifth birthday, the handsome flier with dark hair and pencil-thin mustache was about to become its chief.

As his deputy, Jones appointed Royal Navy Commander Clive Loehnis, forty-nine. The son of a barrister, Loehnis chose the sea rather than the law. A graduate of the Royal Naval Colleges of Osborne, Dartmouth, and Greenwich, he became qualified in signals in 1928 and left the Navy in 1935 as a lieutenant commander. In 1938 he returned to the Signals Division of the Admiralty, where he earned the silver oak leaves of a commander before retiring in 1942 and going into the Naval Intelligence Division. When he was demobilized after the war, he entered the Foreign Office, presumably the GCHQ, of which it is a division.

Friedman had known both Jones and Loehnis for years, and they were on the best of terms. Thanking him for a note of congratulations, Jones wrote to Friedman about his selection: "It is a fascinating prospect; in fact I can think of none I would like better. And with so many able and nice people about me the burdens should not be too heavy." Then he came to the important part. "As you know,

PARTNERS 317

BRUSA is to me terribly important and I admit to a certain pride in having been so closely connected with its birth. A prospering BRUSA in the midst of friendly relations is right in the forefront of my aims for the future." Friedman and the NSA could breathe a sigh of relief; the cooperation would continue uninterrupted.

Among the terms provided by the BRUSA-UKUSA Agreements was the exchange of COMINT personnel among the United States, Britain, Canada, and Australia. Soon after NSA was formed, therefore, it secretly began sending people to London to work with the codebreakers of GCHQ. Using the cover name "Office of the Senior United States Liaison Officer," or simply SUSLO, the team moved into Flat 507 at 7 North Audley Street, a handsome building just north of Grosvenor Square. A few blocks to the east lay the greenery of Hyde Park; a few steps south lay the American embassy.

About the same time that AFSA became the NSA, GCHQ moved from the London suburb of Eastcote into its new headquarters on Priors Road in Cheltenham, Gloucestershire, eight-five miles to the west. The move to Cheltenham, a quiet city among the green rolling pastures and rural country roads of the Cotswolds, where one is as likely to encounter a heifer as another human being, was undoubtedly prompted by the same concerns that caused AFSA-NSA to consider moving to Fort Knox. With both COMINT and COMSEC concentrated in London since the end of the war, an attack on the city during another war would virtually wipe Britain off the cryptologic map. The move of GCHQ and COMINT to the Cotswolds left the London Communications Security Agency, another branch of the Foreign Office, at 8 Palmer Street, just down the road from Buckingham Palace.

NSA soon followed GCHQ to Cheltenham, setting up an operations branch there while maintaining its main office in London. SUSLO during the mid-1950s was Navy Captain Prescott C. Currier, who was picked to be executive secretary of the United States Communications Intelligence Board during the summer of 1958. It was Currier who, as an ensign a decade and a half earlier, was a member of the Sinkov delegation that had delivered the two Purple machines to England. Deputy SUSLO, in charge of the Cheltenham unit until he sailed back to the United States aboard the S.S. America on July 10, 1957, was John J. Larkin.

The British, likewise, set up their Senior United Kingdom Liaison Office in Washington during the same period. In the mid-1950s it went under the cover name of the British Joint Services Mission and was located in the main Navy Building. SUKLO at the time was Colonel Freddy Jacob.

Another part of the top secret agreement dealt with control of the special radio circuits linking NSA and GCHQ, Under BRUSA, the United States was to have control over the U.S. end of the circuit, and the British were to exercise control over their end. By 1954, however, the United States was beginning to have second thoughts about that part of the agreement and sought to take control of both ends of the circuit. "It is toward this end," the Joint Chiefs of Staff indicated in a memorandum to the director of NSA, "that efforts are being made to modify the arrangements resulting from the BRUSA Agreement so that the United States would have control of both terminals of the GCHQ-NSA communications." The British had other ideas, however, and so indicated in a memorandum to General Ralph Canine. As a result, a meeting to discuss the possible change in the agreement was set up for June in England, to coincide with a meeting already arranged in connection with discussions on establishing a Centralized COMINT Communications Center (CCCC).

The CCCCs were designed as special relay centers for the exclusive handling of NSA's traffic, traffic considered too secret to be sent on normal military channels, even though they were certified for top secret. Only specially COMINT-cleared personnel were allowed access to the CCCCs that contained the special NSA-supplied on-line cryptographic equipment. For increased security, the CCCCs were located in entirely separate buildings, away from any military relay center. If for some reason a CCCC had to be in the same building, it was totally segregated.

Among the most critical elements of cooperation between the two nations, especially with regard to the United States, was the right to establish listening posts on each other's territory. This appears to have been a lopsided agreement, since by March 1951 the United States had a total of seven units in the United Kingdom or on U.K.-controlled territory, but there is no evidence of reciprocation. For that matter, even during the Korean War a plan for the possible emergency evacuation of a British COMINT unit in Hong Kong met with resistance.

It had been originally agreed that if there was an emergency evacuation, the unit would be allowed to relocate and set up shop on American-controlled Okinawa. A directive to this effect was therefore sent to the commanding general of the Army's Far East Command in Tokyo. Unfortunately, the Army Security Agency had already made plans to more than double its proposed intercept station on the island from about 300 to 674 people, and this was to be done in the facilities planned for the British. The general, consequently, wired back to

PARTNERS 319

Washington that "it would appear, therefore, undesirable if not altogether infeasible to plan to locate the British unit on Okinawa" and as a result recommended Guam.

Back in Washington the Joint Chiefs rejected Guam and instead suggested that the British unit go to Singapore, British North Borneo, or Australia. Eventually, however, apparently under British pressure, the JCS assented to the move and directed that the Far East commander provide emergency accommodation on Okinawa "any time the Air Commander-in-Chief British Far East Air Force considers that conditions warrant removal of the unit to a more secure site." Nothing was said about comfort, however, and the Army began breaking out tents, next to the ASA's 111 Signal Service Company in Okinawa's Sukiran area, for the British to use for quarters, messing, and administration facilities. The intercept gear was to go in a number of steel-and-wood prefabricated buildings nearby.

Among the areas of the world being listened to most closely by the Puzzle Palace during the mid-1950s was the oil-rich Middle East. In 1952 the Egyptian monarchy was overthrown by the military, and since 1954 the nation had grown increasingly nationalistic under the leadership of Colonel Gamal Abdel Nasser. Seeking to project himself as the leader not only of his own poverty-stricken nation but of the entire Arab world, Nasser set as his three main goals modernization, the elimination of the newly formed state of Israel, and the bodily eviction of the British from the Suez Canal.

In Washington, the Eisenhower administration, believing that the preceding administration had overcommitted itself to the safety and security of Israel, embarked on a new policy of "impartiality" in the region, a move that particularly worried Britain and France. Meanwhile, Nasser was becoming more friendly with Moscow, which had offered to subsidize the building of a high dam across the Nile at Aswan. Distressed, Washington countered with an offer to arrange Western financing for the construction project, but on July 19, 1956, after it appeared likely that the Russian offer would fall through and Egypt would have to turn to the United States, Secretary of State John Foster Dulles withdrew the offer. It was an embarrassing humiliation for the Egyptian president, and he retaliated by nationalizing the Suez Canal.

The seizure sent shock waves through London and Paris. Britain feared a cut-off of oil from the Middle East; France viewed Nasser as influential in prolonging the Algerian revolt. Both immediately began thinking in terms of military action, action in which British Prime Minister Sir Anthony Eden fully expected American coopera-

tion. But Dulles feared that any show of force against Egypt would be interpreted by the newly emerging nations of Asia and Africa as renewed evidence of Western imperialism, and therefore refrained from joining with Britain in any use of force.

As Britain turned a cold shoulder to its ally across the Atlantic, Israel began expressing fears over the shifting balance of power in the Arab world. During October, therefore, British, French, and Israeli officials met secretly in France to discuss the situation. Within a few short weeks the discussion turned into action, and on October 29 Israel lashed out with a violent attack against Egypt. Two days later Britain and France joined Israel in the invasion, launching troop carriers by air and sea from Cyprus.

Fearing that the Soviet Union would make good on a threat to use force to crush the invasion — with long-range missiles, if necessary — and wishing to avoid a return to prewar colonialism, Eisenhower put intense pressure on the Eden government to end the fighting. Within a week Eden conceded and on November 6 ordered a cease-fire. The crisis was over, but the effect on Anglo-American relations was traumatic.

Throughout the weeks and months that followed the crisis, the inevitable question was whether Washington was in fact caught off guard by the surprise Anglo-French-Israeli attack. According to Secretary Dulles, it was. Testifying before a joint meeting of the Senate Foreign Relations and Armed Services Committees, Dulles stated, "We had no advance information of any kind." Yet this was contradicted by his brother, CIA director Allen Dulles, years later. "Here intelligence was well alerted to what Israel and then Britain and France were likely to do," Allen Dulles wrote in his book *The Craft of Intelligence*. "In fact," he added, "United States intelligence had kept the government informed but, as usual, did not advertise its achievement."

That the NSA was reading the secret traffic of all three belligerents seems unquestionable. Responsibility for solving the coded messages of Britain, France, and the Middle East nations was the responsibility of PROD's ALLO section (now G Group).

Britain appears to have been aware of NSA's successes in breaking its codes shortly after the ill-fated invasion. George Wigg, a Labour member of Parliament and a former Army colonel, publicly stated several weeks after the British withdrawal that the United States had recently "cracked" the British, French, and Israeli Foreign Ministry and armed forces' codes, and thus had prior knowledge of the planned attack.

Ironically, at the same time as the British were putting the final

321

touches on the invasion plan, a plan that most likely depended heavily on SIGINT, GCHQ director Eric Jones was meeting with NSA officials in Washington. Whatever the reason for the peculiarly timed mission, it appeared at least somewhat successful, since Jones later termed it "profitable."

On Wednesday, October 31, just as the first Anglo-French troops began hitting Egypt's sandy coast, Jones boarded the R.M.S. Queen Mary for a six-day journey back to England. At three-thirty that afternoon, as the triple-stacked Cunard superliner pulled away from its berth just off New York's West 50 Street, Jones must have been troubled by the reaction the invasion might have on the delicate GCHQ-NSA relations. Two days out at sea, the SIGINT chief addressed a letter to his old friends the Friedmans, in which he expressed sadness at the imminent retirement of General Canine and of the course of events. "Needless to say," Jones wrote, "the differences between our two countries over the Middle East are rather marring my trip home."

NSA was equally concerned about the possible adverse effect on joint SIGINT cooperation caused by the cooling-off of relations between the two countries. In addition, concern was most likely expressed over possible changes in the crypto systems of Britain and the other NATO countries because of the widespread feeling that America had broken their codes. The situation was complicated by the fact that newer, more complex cryptographic devices were being produced in Europe, devices that could set NSA codebreakers back many years.

Because of these worries, Air Force Lieutenant General John A. Samford, who had replaced General Canine as DIRNSA, turned to Friedman and asked him to undertake a series of ultrasensitive missions to England and the continent. These missions, the details of which are still considered top secret by the Agency, probably were directed at reasserting the need for close cooperation between GCHQ and NSA and at establishing some sort of agreement with Europe's largest manufacturer of cryptographic devices, Crypto A.G.

Despite his age, despite his history of psychological problems, and despite three heart attacks, which had brought him within a whisper of death, on August 5, 1957, Friedman, after several months of briefings, picked up his maroon-jacketed special passport and two weeks later was airborne toward England. The trip was ostensibly a spur-of-the-moment decision having to do mostly with an upcoming book on Shakespeare. Even his wife, who was traveling with him, apparently did not know he was on a mission for the NSA.

After a week in London devoted mainly to matters related to his

book, Friedman officially re-entered duty status at eight o'clock on Monday morning, August 26. He was picked up at his hotel by official car and driven the eighty-five miles through the countryside to the familiar buildings of GCHQ in Cheltenham, where he no doubt met with Sir Eric Jones, who had been in the honors list in January 1957, only a few months after the Suez fiasco.

Jones had celebrated his knighthood into the Order of St. Michael and St. George by taking a vacation in the snow-covered mountains of the Italian Alps. Among the mail forwarded to him there was a letter of congratulations from Friedman. Writing from his room in the Grand Hôtel Principe in Limone Piemonte, Iones thanked his old friend for the words of encouragement. The honor, said Sir Eric, "has been won by a lot of hard work by very many people within the circle and on the fringes of it, and it has also been partly won by friendly cooperation from people such as customers." Chief among those "customers" were the British military and intelligence services. "At this time I am deeply conscious," Jones added, "that much of that work has been done on your side of the Atlantic, and that much of that cooperation has come across the ocean; and I am deeply grateful." Then he added a personal note: "To you, Billy, most notably, I am indebted, in so many ways over very many years. You indeed made a wonderful contribution to our joint endeavours and have been a good friend to me. All here, on this side, freely recognise that, none more than I."

Only Friedman could elicit such a feeling of friendship from the British, and it was only Friedman who could have secured from GCHQ the maximum degree of cooperation.

After a full day of meetings, Friedman spent the night in Cheltenham and engaged in further talks the next day, returning to London that night. On September 1, he was off to the Continent and the next, and perhaps most important, part of his mission.

In 1957, Crypto A.G. was to cryptography what General Motors was to automobiles. Based in Stockholm, the company was probably the world's largest supplier of crypto equipment to foreign governments. As many of the Third World nations began casting off the chains of colonialism, they turned to Crypto A.G. to protect their secret communications.

Heading the company was sixty-five-year-old Boris Caesar Wilhelm Hagelin, a Russian-born Swede who since the 1920s had been manufacturing crypto equipment and selling it to various governments. After the German invasion of Norway in April 1940, Hagelin packed his bags with blueprints and two dismantled ciphering machines and,

PARTNERS 323

together with his wife, made his way across Germany and down to Italy, where he boarded the Conte di Savoia, on its last outward-bound voyage, for the trip to New York. Once in the United States, Hagelin established the Hagelin Cryptographic Company and promptly made his million selling his machines to the United States Army. In 1944 Hagelin moved back to Sweden and again set up shop, but because of restrictive laws that permitted the government to appropriate inventions beneficial to the national defense, he moved his research and development facility to a hillside overlooking a lake in Zug, Switzerland, and in 1959 moved the entire firm there.

When Friedman left London, he headed for Sweden and then Switzerland, where, it seems likely, he met with the white-haired Hagelin. Close friends during the war, Friedman and Hagelin had a great deal in common. Both were born in Russia, within a year of each other, and both shared an almost fanatical passion for cryptology. Exactly what happened during their meetings may never be known, but it seems likely that some sort of "deal" was offered to Hagelin by Friedman on behalf of the NSA. What this deal may have involved can be only speculation, but it appears likely that Hagelin was asked to supply to the NSA details about various improvements and modifications made to the cipher machines his company had supplied to other governments, including, especially, the member countries of NATO. This would have greatly shortened the time needed by the United States to break their code systems.

Evidence of this can be found in a worried request made by the NSA to the British author Ronald Clark, who wrote a biography of Friedman in 1977. In his book, Clark made several references to Friedman's 1957 trip and to two other trips Friedman made to England and Europe during April and May of 1958. On learning of Clark's intention to mention these trips, officials of the NSA approached him and expressed their "serious concern" about what might be revealed. They made several unsuccessful attempts to read the manuscript, both in the United States and Britain. Finally, not knowing how much Clark actually knew of the mission — which was very little — the officials reluctantly explained to him that their reason for worry was that "the book might discuss the supply of cipher machines to NATO; and that this would deprive NSA of the daily information enabling the NSA to read the secret messages of other NATO countries."

With regard to the connection with Hagelin, evidence can be seen in a revealing letter dated August 8, 1958, from Friedman to Howard Engstrom, who had left office as deputy director of NSA only a few days before. In his letter, Friedman indicated his frustration over the handling of the "Boris" project and the fact that it was apparently being taken out of his hands:

I have also to report to you, either with tears or laughter, I don't know which, that Sammy [NSA director Samford] made it crystal clear to me, in words of one syllable, that he did not want me to write any more to our friend Boris except on social matters. The thing is now in the hands of you-know-who and he thinks that we (including, especially, myself) should have absolutely nothing to do with it any longer. I am beginning to wonder, in connection with this project, whose ox is being gored? To whose interest is it that the project go through successfully? By the way, what became of the letter from Boris that I sent you from California? I asked Sammy if he had it and he said he didn't. I asked his secretary—she said she didn't. I would appreciate any info that you can give me as to its whereabouts. I want it—it was sent to me.

The "you-know-who" was most likely the CIA. Engstrom also made mention of the project in his reply to Friedman's letter. "I am very anxious to find out how the Boris deal is coming," he wrote, "and hope it doesn't die after all the effort you expended on it."

That it didn't die seems to be indicated by the NSA's response to Ronald Clark. In fact, it appears that Friedman's approach to Hagelin was merely the latest in a series of secret approaches to the crypto baron. Stuart Hedden, a Wall Street lawyer, had been the New York agent for Hagelin's company during the war, and in that capacity he formed a friendship with Friedman that lasted for decades. For a year, between 1952 and 1953, Hedden served as inspector general for the CIA, leaving when General Walter Bedell Smith stepped down as director. In a letter to Friedman written in 1955, Hedden referred to "Boris" and some of the approaches made to him. Noting that Boris "writes very rarely these days," Hedden commented, "After two wild goose chases which your shop and my old shop have brought him here on, I would not blame him a bit if he tried to weaken his ties here a little. I am sure it is not deliberate, but it may be subconscious."

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The foundation of friendship and cooperation established with the BRUSA and UKUSA Agreements during the 1940s and reinforced by Friedman during the 1950s, continued to solidify during the 1960s and 1970s.

325

With the retirement of Sir Eric Jones in 1960, his long-time deputy, Clive (Joe) Loehnis, took over GCHQ. Two years later, like his predecessors, he was knighted, and in 1964, at the age of sixty-two, he retired.

Loehnis was succeeded in the £9,000-a-year post by Leonard James (Joe) Hooper, fifty, who had graduated from Oxford in 1936 with first-class honors in modern history. Following two years at the London School of Economics, he joined the Air Ministry and transferred to the Government Code and Cypher School in 1942, staying on with GCHQ. Six years after receiving his K.C.M.G., in 1967, Sir Leonard left office to take over Britain's top intelligence post, coordinator of Intelligence and Security in the Cabinet Office Joint Intelligence Committee, a position somewhat analogous to chairman of the U.S. Intelligence Board.

Heading GCHQ from 1973 to 1978 was Arthur Wilfred (Bill) Bonsall. Bonsall had graduated from Cambridge with second-class honors in modern languages and, like Hooper, joined the Air Ministry in 1940. Two years later he signed up at Bletchley Park and in 1977 he received his knighthood, at the age of sixty.

Director of GCHQ since 1978 is Sir Brian John Maynard Tovey, lover of sixteenth-century Italian art. The son of a minister, Tovey was born on April 15, 1926, and studied at St. Edmund Hall, Oxford, after which he transferred to the University of London's School of Oriental and African Studies. In 1945 he joined the Royal Navy and subsequently transferred into the Army Intelligence Corps. Starting off with the Foreign Service rank of junior assistant, the future director went to work for GCHQ in 1950. Seven years later he was promoted to principal, then assistant secretary in 1967, under secretary in 1975, and finally to the rank of deputy secretary in 1978.

Although the directors of NSA and GCHQ are the ones charged with the ultimate responsibility of ensuring continued harmony and cooperation between their agencies, it is the senior liaison officers, the SIGINT community's version of ambassadors, who control the day-to-day relations between the UKUSA partners. And it is for that reason that the post of SUSLO at NSA is both highly prized and carefully considered.

Just how carefully considered Deputy Director Lou Tordella discovered when he, without bothering to inform NSA director Marshall Carter, picked Cecil C. Corry, a twenty-five-year veteran of the Agency, to fill the post in England left vacant by the returning Dr. A. W. Hesse in the late 1960s.

Carter, who had other plans for the post, exploded when he learned

that Tordella, without consultation, had taken it on himself to go ahead and advise Corry. At the time, Carter was in the process of gradually, if slightly, lifting the veil of secrecy that had long surrounded every aspect of NSA, and he wanted someone in London who he felt confident could express his feelings adequately to the British and its hypersecret GCHQ.

"Corry was very, very competent," Carter later explained, "but he just wasn't the personality I wanted representing me in London, under the circumstances, where I was more and more going open with the activities of NSA." Instead, Carter picked John J. (J.J.) Connelly, Jr., the affable assistant director for Personnel Management. Said Carter: "He was not a cryptologist, but he was the guy I wanted representing me at the Court of St. James's. Now when it was a low-level guy at Cheltenham, just there as a coordinator, liaison between NSA and GCHQ, then that was one thing. Where it was a guy representing me in the intelligence community of the British Empire — I wanted a different breed of cat."

Carter also objected to the fact that the representatives of the non-English-speaking collaborating governments were treated differently from the English-speaking partners. "We had a rule at NSA when I was there," the former DIRNSA revealed, "that only the British and Australians would be allowed in the main building . . . I'm talking about the whole number of English-speaking nations."

The hospitality changed, however, when it came to a meeting with officials of the South Korean government. Notified that the meeting would have to take place at another location, Carter protested. "We don't let them into the building," the director was informed by his senior staff. "I said: 'No way! If we are going to exchange information with the Koreans and they are going to look to us for guidance and everything, well they have a right to come in.' So I had them in for luncheons in my office and at the Maryland Club."

For more than twenty years the London home of NSA's SUSLO has been Flat 5 at 35 Bryanston Square, a stately building overlooking a green in the Mayfair section of the city. Ten minutes away by foot is Grosvenor Square and the American embassy, where the SUSLO offices are tucked away securely behind the door to Room 452—one floor above the CIA offices.

Occupant of Flat 5 during the early 1970s was Benjamin J. Price, formerly deputy assistant director for Personnel Management and before that the NSA representative to the Commander-in-Chief, Pacific, in Hawaii. He was replaced by Milton Zaslow, the former deputy chief of PROD. When Zaslow returned to take over as deputy director

for Telecommunications and Computer Services, Benson Buffham moved into Flat 5. Buffham, until then NSA's deputy director, apparently wanted a fling at the good life before retirement, although others saw the move as an effort at fence-mending. When Buffham retired in April 1980, he was replaced by the deputy director for Management Services, Dr. Don C. Jackson.

As serious as the NSA is about its SUSLO, so are the British with regard to their SUKLO. Representing GCHQ at NSA during the mid-1960s was Reginald H. Parker, a dashing Englishman with an infectious sense of humor. When "Reg" Parker first arrived at NSA, General Gordon Blake was DIRNSA, and, as Parker later confessed in a letter to General Carter, he had some apprehension when the new NSA director first arrived on board. "It is always a matter of concern to any senior liaison officer when there is a change of Director of the agency with which he spends most of his time. All I need say about your arrival at NSA in the summer of 1965," he wrote to Carter, "is that I rapidly found that I did not have to worry."

Like NSA, GCHQ hides its liaison officer under diplomatic cover. In London, Buffham was listed as a "political attaché." GCHQ's current (1982) SUKLO, George M. (Bill) Gapp, is simply listed as an "admin. officer" at the British embassy in Washington.

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"It has long been known that during the eighteenth century the British government from time to time obtained valuable information from the interception of private and diplomatic correspondence passing through the post office."

So began a lecture on early mail-opening by Kenneth Ellis to his colleagues at GCHQ in Eastcote during the late 1940s. Official eavesdropping in Britain is steeped in tradition and shrouded in secrecy. Even Shakespeare made note of the practice when he wrote in Henry V, "The king hath note of all that they intend / By interception which they dream not of."

Although, as Ellis pointed out in his GCHQ lecture, "the interception of correspondence is as old as correspondence itself," the custom became organized in 1653, when Lord Thurloe created what was known as "the Secret Office," possibly GCHQ's earliest ancestor.

Housed in a series of three rooms adjoining the Foreign Office and Controller's House off Abchurch Lane, the Secret Office was directed originally by Isaac Dorislaus, who was known simply as "the Secret Man" by those few witting of the snooping. Later, his successors were given the cover of "Foreign Secretary" and, as one holder of the office once revealed, "ostensible employment about the Post Office the better to conceal the other important business."

The "other important business" consisted of opening and copying international, especially diplomatic, correspondence and sending the interceptions to the Confidential Under Secretaries in envelopes marked PRIVATE AND MOST SECRET. "Those en clair," according to Ellis, "went straight to the King." Letters written in cipher, on the other hand, were sent by hand or special messenger to the Deciphering Branch for solution and then on to His Royal Highness, often arriving within twenty-four hours, sometimes even before reaching the hands of the intended recipient. After review by the King, the intercepts would be placed in a special envelope known as "the Long Packet" and sent off to selected ministers.

The staff of the Secret Office, paid out of a secret fund, consisted primarily of trained engravers, openers, decipherers, and translators. At the time, most of the diplomatic correspondence was secured with wax seals that required a great deal of technical skill to reproduce without detection. Three hours were regularly spent on the King of Prussia's mail alone.

Just as the Secret Office was established to intercept international correspondence, a "Private Office" was set up within the Office of the Secretary of the Post Office to concentrate on opening domestic mail. It was directed primarily by the First Lords of the Treasury and Admiralty, and no one was spared. The mail of private citizens was opened in order to catch crooks; ministers' mail to warn the King of impending resignations and security risks; the King's mail to observe his attitude and then alter it either by argument or well-placed leaks; opposition leaders' to undermine their policies; and even each other's to keep track of their conduct.

Britain's Royal Mail Openers managed a charmed existence. Their single public scandal occurred in 1844, when Joseph Mazzini charged Secretary of State Sir James Graham with opening his letters and passing the contents on to the Neapolitan government. A Secret Committee of the House of Commons was quickly formed to examine the government's mail-reading practices but ended up praising the officials for ingenuity. "In every case investigated," the committee concluded, "it seems to have been directed by an earnest and faithful Desire to adopt that Course which appeared to be necessary, either to promote the Ends of Justice or to prevent a Disturbance of the public Tranquillity, or otherwise to promote the best Interests of the Country." Wisely, the committee avoided any discussion of how or from where the government's authority to raid the mails derived, except to note that it had been doing it for a very long time.

PARTNERS 329

That same "inherent" authority was later used to justify the interception of telegrams and, shortly after the first telephone exchange was established in England in 1879, telephone conversations. Just how far that authority extended was discovered December 16, 1920, when Western Union President Newcomb Carlton shocked a Senate subcommittee with the revelation that the British government secretly required that his company turn over to Naval Intelligence every incoming and outgoing telegram received in Britain. The charge was subsequently confirmed in testimony by John Goldhammer of Commercial Cable Company and Clarence H. Mackay of Commercial Cable Postal Telegraph Company. "In July, 1919," explained Goldhammer, "when British censorship ceased, we were ordered by the British Government to turn over to them all messages passing between our own offices, 10 days after they were sent."

Minnesota senator Frank B. Kellogg, chairman of the subcommittee, asked Carlton whether he had ever challenged the British on the matter. "We thought that it would be misunderstood and we thought it was a source of irritation to American cablers," the Western Union chief responded. "They replied that they wanted those messages only for such supervision as might give them an inkling of pending disorders within Great Britain, I assume having to do with Irish unrest, and also to do with the bolshevik propaganda."

Chairman Kellogg then pressed Carlton as to whether there was any way to prevent the British actions. "No; we cannot prevent it," he said, but added that it was not for want of trying:

We took rather a firm stand about delivering them. We said that we would not be responsible for receiving and delivering messages destined to the United States unless we were certain that they are uncensored, so far as their contents are concerned, and we would prefer to shut down our cables as a protest if this thing was being done surreptitiously. We could not put it much stronger than that . . .

And I went so far as to instruct our vice president in London not to deliver the messages to the British Government and see what would happen. The British Government then explained exactly what they did with the messages; they gave us their assurance that the messages would not be deciphered; the reason why they wanted to keep general track of who was cabling; and, furthermore, they guaranteed that no information of any kind would be issued.

Caught off guard by the embarrassing revelation, the British embassy sent off a letter denying the charges directly to Senator Kellogg rather than through the State Department, a serious breach of diplomatic protocol. At the same time, the British government came up

with an amendment to the Official Secrets Act of 1911, requiring telegraph companies to turn over to the Secretary of State on demand "the originals and transcripts" of either all telegrams or any specified category of telegrams. Although the act required that the request must be made by "warrant," the term is misleading, since, unlike in the United States, where only an impartial judge may issue a warrant, the British term implies little more than an official directive. The British were even crafty enough to include a similar loophole in the landing license issued to the cable companies, authorizing "one of His Majesty's principal secretaries of state" to take over the telegraph facilities completely or to direct that the companies surrender "all telegrams tendered for transmission or arriving by the company's telegraphs." The sole requirement is for the official to consider that an "emergency" had arisen.

To the chagrin of the British, Newcomb Carlton was back before the subcommittee soon after the Christmas recess, but this time he was considerably less forthcoming. Asked by Senator Kellogg whether the messages turned over to British Intelligence included United States government communications, the cable chief buckled. "If you do not mind, I would like not to answer that," he pleaded. "It puts my company in a very embarrassing position with the British Government. We have large affairs with the British Government, and with various departments who treat us with every consideration. I was made to appear at the last hearing as being something of an informant; that I had informed this committee."

Kellogg brushed aside several further protests, and Carlton reluctantly acquiesced:

It appears that the British Government was desirous of supervising in and out cable messages to certain European countries in the interest of British peace and quiet. In order to avoid an appearance of discriminating against these European countries, they decided to take charge, physical charge, of all in and out cable messages from every country, and they therefore adopted the plan of waiting 10 days, that is, to give 10 days between the handling of the message and the time that the Government called at the cable offices for the messages. The messages were then placed in large bags, sealed I believed, and put in wagons. Those wagons were driven away under the custody of the Admiralty, and lodged over night in a storehouse and returned to the cable offices the next morning.

Undoubtedly to Mr. Carlton's profound relief, the question of whether the American government engaged in similar shady practices never came up. One year earlier, after a conference with Herbert PARTNERS 331

O. Yardley and the Military Intelligence chief, Brigadier General Marlborough Churchill, Carlton had instructed his vice president, J. C. Willever, to begin secretly supplying the Black Chamber with whatever it desired.

That tradition dies hard in the intelligence trade is evidenced by the fact that more than half a century after the Kellogg hearings, both the American and British cable-snooping operations were continuing as strong as ever and with barely a change. In London, the wagons had been replaced by Ministry of Works vans, the ten-day waiting period had been reduced to same-day pickup, and the overnight return had stretched to forty-eight hours. And in New York the hard copies had given way to magnetic tapes, and civilian couriers had replaced military messengers. The Admiralty had been supplanted by GCHQ, and the Black Chamber replaced by NSA.

Under the theory that two ears are better than one, the NSA and GCHQ, through their BRUSA-UKUSA pacts, agreed to share the wealth of each other's cable intercept programs. What this meant was that, in addition to collecting all the cable and telex traffic from the three U.S. telegraph companies under its Shamrock program, NSA would now also have access to the miles and miles of traffic flowing in and out of the British commercial telegraph system. Once received, the British tapes would be processed through NSA watch list–alerted computers. Thus, NSA would be able to ransack the entire United Kingdom telex and cable systems to locate a reference to Jane Fonda or Muammar Qaddafi, oil or drugs, IBM or British Petroleum.

That the Agency was not above using the British intercepts to search for protesters in its domestic Minaret program was discovered by the special Justice Department task force that investigated the eavesdropping policies of the intelligence community. Classified TOP SECRET UMBRA/HANDLE VIA COMINT CHANNELS ONLY, the task force report concluded that "MINARET intelligence, except one category of international voice communications involving narcotics, was obtained incidentally in the course of NSA's interception of aural and non-aural (e.g., telex) international communications, and the receipt of GCHQ-acquired telex and ILC [International Licensed Carriers] cable traffic (SHAMROCK)." (Emphasis in original.) Thus, wittingly or unwittingly, the British government became a co-conspirator in one of the NSA's most illegal operations.

Such a prospect, however, would likely cause little concern at GCHQ, since it almost certainly runs the cable and telex intercepts supplied by NSA through its own domestic watch list.

Just as UKUSA provides for the exchange of intercepted cable and

telex, it also probably provides for the exchange of aural, or telephone intercepts. Duncan Campbell, an editor of the British magazine New Statesman, and Linda Melvern, a veteran reporter for the Sunday Times of London, suggested in a New Statesman article in July 1980 that one of the principal targets of the NSA's Menwith Hill Station in Harrogate, Yorkshire, is British international and domestic telecommunications.

The main thrust of the seven-thousand-word article was that a nearby Post Office Department (which until recently administered Britain's telecommunications as well as her mail services) microwave tower, known as Hunters Stones, was built for the specific purpose of filtering into Menwith Hill thousands of telephone conversations from all over the country. "The Post Office," the article said, "has built Menwith Hill into the heart of Britain's national communications system." The underground cable linking the tower to Menwith Hill five miles away, wrote the two journalists, "provides an umbilical link into the international telephone and telex system running through Britain."

The large number of microwave horns and dishes attached to the Hunters Stones tower in the lightly populated Yorkshire moors would seem to lend weight to the article's assumptions, along with the fact that another microwave tower, Tinshill, is only five miles away from Hunters Stones and thus would seem redundant. However, as Peter Laurie, another British writer who, like Campbell, specializes in electronics and security issues, pointed out in his book *Beneath the City Streets:* "The heaviest communications capacity is often in the most remote countryside. Partly this is because cities tend to be built in river valleys which are low and therefore unsuitable for microwaves."

Further, it would seem that domestic British communications would have little interest to the NSA, which uses Menwith Hill primarily to eavesdrop on Europe and the Soviet Union by way of SIGINT satellites. GCHQ, which also has a detachment assigned to Menwith Hill, would have considerably more interest in the subject, but it would appear unlikely that it would conduct its domestic eavesdropping from an NSA base.

A target that would be far more interesting to the NSA, and quite possibly the GCHQ, is the international communications entering and leaving England, much of them by satellite. The signals are transmitted and received by earth stations located at Madley in Herefordshire, about 130 miles northwest of London, and at Goonhilly Downs in Cornwall, near Falmouth. After the American stations at Etam, West Virginia, and Andover, Maine, the two stations are, re-

PARTNERS 333

spectively, the third and fourth busiest commercial earth stations in the world.

One of the world's first earth stations as well, Goonhilly Downs played a major role in the early TELSTAR experiments in 1962. That year, President John F. Kennedy signed into law the Communications Satellite Act, and in February 1963 the Communications Satellite Corporation (COMSAT) was formed. A year and a half later eleven countries signed agreements to form a single global satellite system: the International Telecommunications Satellite Organization, or INTELSAT, which put its first satellite, INTELSAT I, the Early Bird, into orbit on April 6, 1965. Activated two months later, it established the first satellite pathway between the United States and Europe, providing both transatlantic telephone and television service.

A key link in this system was Goonhilly Downs, then one of only five INTELSAT earth stations around the world. (By 1980, the number of earth stations in the system had grown to 263 in 134 countries.) In 1967 the international space consortium placed into orbit three of the more powerful INTELSAT II satellites, and over the next three years further upgraded the now worldwide satellite network with the third generation of communications satellite, INTELSAT III. Capable of handling all forms of communications simultaneously — telephone, telegraph, television, high-speed data, and facsimile, the satellites had a capacity of twelve hundred circuits each.

During this period, GCHQ secretly constructed its own pair of hundred-foot satellite dishes a short sixty miles to the north of Goonhilly, at Bude, also in Cornwall. With these dishes GCHQ would be able to eavesdrop on all communications flowing between the INTELSAT satellites and Goonhilly Downs in the same way that NSA is able to listen in on the Etam earth station from its secret site at Sugar Grove.

Apparently there was considerable resistance within the upper reaches of the British government to the costly project, so GCHQ director Sir Leonard Hooper resorted to a favorite and effective lobbying tactic: with NSA's support, Hooper stressed the importance of the project to UKUSA and especially to NSA. As usual, the magic worked, and Sir Leonard received his antennas. Later he sent his personal thanks to NSA director Carter, saying he was so grateful for the assistance that he thought the two dishes should be named after Carter and Deputy Director Louis Tordella: "I know that I have leaned shamefully on you, and sometimes taken your name in vain, when I needed approval for something at this end," the GCHQ director confessed. "The aerials at Bude ought to be christened 'Pat' and 'Louis'!"

It was a game Carter knew well, as he later explained when recalling the letter:

I think what he's probably talking about is, he has difficulty getting money for something that he wants to do. He presents the British side, OK? [and gets] turned down. I'm just theorizing. And he says, "Well look, you can turn me down from the British viewpoint, but I'm in bed with Pat Carter on this thing—this is a joint requirement—he needs it as badly as I do. The product that he is going to develop for us will come right to us, so would you take another look at this because he wants it, it will help him in his business. We'll get the results of it."

And it was a game played on both sides of the Atlantic.

In 1967 Secretary of Defense McNamara appointed Frederick Eaton, a conservative New York lawyer and banker, to head a committee to review the U.S. SIGINT effort. For some time various senior intelligence and Pentagon officials had felt that some of the NSA's SIGINT activities were not meeting expectations and that this had resulted in a serious cost-effectiveness problem. Foremost among those who held this belief was Assistant Secretary of Defense Eugene Fubini, the Pentagon's electronic intelligence chief and a man with whom Carter continually bumped heads. Fubini, according to Carter, "had insisted that we were collecting too much on a particular target and that we were wasting money and wasting assets...

"Lou Tordella and I were just climbing the walls," Carter recalled of the formation of the committee. For one thing, he said, Eaton "came in bare-ass naked, didn't know anything about cryptology or anything — he hardly knew what NSA was doing." But Carter's main problem was Fubini: "It was a geared operation by Fubini, who had expected to control this committee and therefore get us directed to do things which he had [tried to] convince us should be done."

As the committee was nearing its deadline, a majority of the staff, made up largely of officials from the State Department, the CIA, and the Pentagon, reportedly had "accumulated substantial evidence that much of the NSA's intelligence collection was of little or marginal use to the various intelligence consumers in the community." Nevertheless, to the staff's surprise, Eaton "recommended no reductions and concluded that all of NSA's programs were worthwhile." Faced with this turn-around, many of the staff turned in their pens, and Eaton was forced to write the report's conclusion himself. Said Carter of the victory: "Fortunately, we had a couple of people who were smart enough to see what Fubini was trying to do, and they got to Eaton . . . and Eaton was able to tromp on Fubini."

PARTNERS 335

Among those who had come to Carter's rescue was his old friend from Cheltenham. "But equally I hope that I have sometimes been of help to you," Sir Leonard wrote after thanking the NSA director for his assistance at Bude, "when the Eatons were around you for example."

As in any partnership, there are occasional differences and conflicts. One of the more nagging problems throughout the 1960s was a continuing feud between GCHQ and the London Communications Security Agency. Unlike the United States, where responsibilities for COM-SEC come under the NSA, the British COMSEC organization had long been a separate department within the Foreign Office. Whereas GCHQ makes up the Signals Department, the London Communications Security Agency made up the Communications—Electronic Security Department and had its own director and staff. The battle was between those who wanted to see COMSEC placed under GCHQ and those who wanted to maintain its independence. The conflict made life difficult for NSA, which was trying not to take sides and to keep at arm's distance from the warfare.

By 1969 the decision had been made to merge the COMSEC organization into GCHQ, a not inconsiderable accomplishment, since, as General Carter noted, "they were a long time in pulling those two agencies together where they were even talking to each other. Joe Hooper alerted me to that."

Among the leaders of the pro-merger group was John Outhit Harold Burrough, C.B., C.B.E., who had joined GCHQ in 1946 after serving a dozen years in the Royal Navy. The son of an admiral and a graduate of Dartmouth, the Royal Naval College, Burrough was appointed GCHQ's SUKLO to Washington in 1965. In 1967 he returned to England and was assigned to the Cabinet Office as an under secretary, presumably on the Joint Intelligence Staff. After two years at Whitehall, Burrough was in line for one of the top two posts at GCHQ. "It could be Director of Plans, or conceivably Director of COMSEC more likely the former, I think," he wrote to Pat Carter; "but one never knows until the decision is made!" Then he mentioned the merger: "In either case I shall be working once again for Joe Hooper, a fact which gives me great pleasure (in a small way I believe I have had some responsibility in my present post for the forthcoming 'merger,' which I have long advocated behind the scenes)." Burrough, a big, large-framed man, retired from GCHQ in 1976 at the age of sixty and became a director of Racal Communications Systems Ltd., one of the largest manufacturers of SIGINT equipment for both NSA and GCHO.

But the differences, overall, were few and were greatly outweighed

by common interests and personal friendships. So close was the friendship between Carter and Joe Hooper, in fact, that Hooper once wrote to Carter, "I have often felt closer to you than to most of my own staff—indeed closer than to any except perhaps John Rendle and John Burrough—and that is something I shall remember and cherish." Thus, when it came time for Carter to retire in 1969, there was a considerable amount of anxiety on the part of the GCHQ director: "As you can understand, I am pretty apprehensive about your successor, and whether I can strike up any kind of similar understanding with him. He is a completely unknown quantity to all of us. Put in a word for me."

The depth of the NSA-GCHQ relationship, a relationship that is continually denied on both sides of the Atlantic, can best be summed up in Sir Leonard's farewell letter to Carter (opposite page).

"Between us," Hooper wrote in another letter, "we have ensured that the blankets and sheets are more tightly tucked around the bed in which our two sets of people lie and, like you, I like it that way."



## GOVERNMENT COMMUNICATIONS HEADQUARTERS, OAKLEY. CHELTENHAM, GLOS.

11/8586/1003/11

22nd July 1969

## Deas Sat,

Last week you told me that you were relinquishing your post as Director BSA from 1st August and going into retirement. Yesterday I was informed of the name of your successor.

This is simply to tell you how much we in GCHQ have valued your part in our dealings with NSA over the past four years. From the outset, though the extent of our working partnership was new to you, you showed an instinctive feeling for its nature and depth which was a great strengthener to those of us who had worked so long in it, and you have consistently gone out of your way to help us sustain and if possible improve our contribution to it. For this we are very grateful. You have given us practical help whenever we sought it but, more importantly, you have given every encouragement and made us feel that GCHQ really mattered to Director NSA. I think you believe, as I do, that the professional relationship between our two Agencies remains of great importance to our two countries and you have certainly made a very great personal contribution to its present strength and closeness.

You kindly received my senior staff whenever they came to Washington and they, like me, have benefited from your wisdom, kindness and hospitality. There are many who will remember you with respect and affection.

For myself I can truly say that my early years as Director GCH $\dot{q}$  were made much easier by knowing that I had so good a friend and so understanding a colleague in the Director of MSA. No one could ask for more.

I do not yet know Admirol Sayler but I look forward to meeting him soon. Please tell him what you have found to be the worthwhile and the difficult parts of the UKUSA relationship and assure him that we in GCHQ will do our best to assist NSA in continuing its great and important mission under his leadership.

Thank you for all you have done, and for your way of doing it. You and your wife take with you into retirement the best wishes of myself and all my colleagues. May you have many years in which to enjoy a well-earned rest.

Your very swiendy.

Lieutenant General Marshall S. Carter, Director, NSA.

## COMPETITION

"DEAR SIR," Earnest began with an overly large D and a small s, "I have in my possession a unsolveable code which I would like to sell." Noting his system's "superior power," the eleven-year-old Minnesotan firmly informed the government that he would "take not less than \$20,000.00" for the code and advised that they write rather than come for it in person.

J. W. Hough also had a code he thought the government might like to consider. "It is, I believe, an improvement over any code system I have ever seen," he wrote, and to demonstrate, he enciphered the last portion of Lincoln's Gettysburg Address. Attached to the letter was a form entitled "Request for Extra Writing Privilege" with Mr. Hough's return address: United States Penitentiary, Leavenworth, Kansas.

For much of this century the only outsiders interested in the esoteric art of cryptography were a handful of hobbyists testing one another's skill with simple cryptograms, and a few entrepreneurs trying to make a business from selling commercial telegraph codes. Those code systems submitted to the government either for comment or for sale would inevitably wind up in a place known, according to one of the NSA's early pioneers, as the "nut file."

Such arrogance and contempt for those outside the barbed-wire fences was easily affordable in the early days of pencil-and-paper cryptology. There being no high technology involved nor any scientific interest in the subject, the government code experts were permitted a near-monastic existence. The ascetic life ended, however, when both codemaking and codebreaking became increasingly mechanized during the late 1930s. A decade later, with computers replacing punched-card machines, cryptology had developed into a full-fledged science. Where once outside interest was rejected, if not ridiculed, the constant need to push outward the boundaries of mathematics, engineering,

and telecommunications now required the establishment of a close yet secret alliance with America's academic and industrial communities.

To forge this alliance, the NSA, soon after it was formed, established the National Security Agency Scientific Advisory Board (NSASAB), a ten-member panel of science wizards plucked from ivy-covered campuses, corporate research labs, and sheepskin-lined think tanks. Twice a year they would converge on Fort Meade, join with senior NSA scientists, and then split into groups like the SIGINT Exploitation Advisory Panel and the Electromagnetic Reception Advisory Panel, where they would discuss the application of the latest theories in science and technology to eavesdropping, codebreaking, and cryptography.

Among the early members of the board was Stewart S. Cairns, who had earned his doctorate at Harvard and was chairman of the mathematics department at the University of Illinois at Urbana (the same school where William Martin, not long before his defection, would be sent on a two-year scholarship). Chairman of the NSASAB during the mid-1950s was Dr. Howard P. Robertson, professor of theoretical mathematics at the California Institute of Technology and later a science adviser to President Kennedy.

When Vice Admiral Laurence Frost arrived at the Puzzle Palace in the fall of 1960, he found relations between the board and NSA strained and bitter. Agency officials were charging the board members with not putting enough time and effort into some of the projects; the board hit back at the NSA leadership for its lack of guidance and its declining support.

In an effort to reduce the acrimony and mend the fences, Frost, much to everyone's surprise, appointed Robert F. Rinehart to chairman of the NSASAB. A fifty-three-year-old mathematics professor at the Case Institute of Technology, Rinehart was the junior member of the board, having been appointed only a few months earlier. Yet, as he indicated in a letter to his fellow board members shortly after his selection, the "lack of previous NSA experience, implying absence of preacquired biases," was precisely the reason for his selection. "It is quite possible that the principle 'ignorance is beneficial,'" he added with tongue only slightly in cheek, "may have been carried to its ridiculous extreme."

Although some members remain on the board for only a year or two, others have stayed on for more than a decade. Among the latter, and dominating the advisory board during much of the 1960s and early 1970s, were Dr. William O. Baker of Bell Labs, Dr. Robert P.

Dilworth of Cal Tech, Arnold I. Dumey of the Communications Research Branch of the Institute for Defense Analysis at Princeton, Dr. Joseph J. Eachus of Honeywell, and Dr. Richard C. Raymond of General Electric. Another long-time member, and chairman from January 1967 until at least the mid-1970s, was Dr. Willis H. Ware, a research executive at the RAND Corporation. From 1951 to 1971 Ware was head of RAND's Computer Sciences Department and subsequently was named a deputy vice president. He first joined the NSASAB in 1964 as a member of the Data Processing Panel.

The Scientific Advisory Board was one of the NSA's earliest efforts to employ the talents of nongovernmental elements of the scientific and academic worlds, but it was far from the last.

In 1956 Dr. Howard T. Engstrom, a computer wizard and vice president of Remington Rand, took over NSA's research and development organization. The following year he was appointed deputy director of NSA and a year later returned to Remington Rand.

Joseph H. Ream, executive vice president at CBS, was imported to replace Engstrom as deputy director. He, too, left after a year; he headed up CBS's Washington office and later CBS-TV's programming department. Ream's interlude at NSA is listed on his CBS biography simply as "retirement."

Three months before Ream gave up codebreaking for "I Love Lucy," one of the most important meetings in the history of the Agency took place in a clapboard structure on Arlington Hall Station known as B Building. On July 18, 1957, a handful of the nation's top scientists crowded together in NSA's windowless Situation Room to present a blueprint for the Agency's future technological survival.\*

Chaired by Dr. William O. Baker, forty-two, the brilliant research chief of Bell Labs, the committee had spent months analyzing the capabilities, direction, and potential of America's cryptologic resources. They concluded that the operations performed by NSA constituted one of America's most valuable assets and one of the most important weapons in the Cold War. To fall behind would be to invite another Pearl Harbor. They therefore recommended the initia-

<sup>\*</sup> Present were Dr. Hendrik W. Bode, a physicist and communications engineering specialist from Bell Labs; Dr. David A. Huffman, an expert in information theory and signal design from MIT; Dr. Luis Alvarez, associate director of the University of California's Lawrence Radiation Lab at Berkeley and a future Nobel laureate in physics; Dr. Richard L. Garwin, a communications specialist from IBM's Watson Lab; mathematics professor Andrew M. Gleason of Harvard; Dr. John R. Pierce, Bell Labs director of communications research; Claude E. Shannon of MIT and Bell Labs, who pioneered the fields of information theory and speech privacy; and Oliver Selfridge, a computer specialist from MIT's Lincoln Labs. (Baker Committee, photo with attachments, Friedman Papers, photo file, George C. Marshall Research Library.)

tion of a Manhattan Project-like effort to push the USA well ahead of the Soviet Union and all other nations in the application of communications, computer science, mathematics, and information theory to cryptology. Such a goal, the Baker Committee suggested, could be accomplished only by a continuous transfusion of brainpower from the reservoir of scientific genius beyond Fort Meade.

NSA had now reached a crossroads. One year earlier, General Canine had begun laying the groundwork for Project Lightning, the five-year, \$25 million program to increase computer speed a thousand-fold. Research contracts had gone out to industrial and academic research groups. But this was to be open research, with the results reported in the literature and made freely available. In fact, research produced by Lightning contributed to over 160 technical articles, 320 patent applications, and 71 university theses.

Now the decision had to be made about whether to continue funding, as with Lightning, generalized, public research or to begin to direct those funds toward secret, specialized, cryptologic research. It was a choice between an open bridge or a hidden tunnel between the Agency and the outside scientific community. Following the Baker report, the decision was to use the tunnel. The vehicle would be Project Focus.

On the morning of October 22, 1960, a small group of invited guests sat quietly on folding chairs as they listened to Princeton University president Robert F. Goheen dedicate the latest building on his expansive campus. John von Neumann Hall was a contemporary, red-brick, two-story building with a pleasant, tree-shaded patio surrounded by an eight-foot-high brick wall. It might have been a new science building or possibly a student center.

It was neither.

Named after the brilliant mathematician who pioneered computer logic, John von Neumann Hall was, in effect, the academic world's entranceway into the NSA's secret tunnel.

A product of the Baker Committee, Project Focus involved the establishment of a private, independent think tank dedicated exclusively to aiding the NSA in discovering solutions to advanced cryptologic-related problems. One year earlier, in 1956, Secretary of Defense Charles E. Wilson had turned to James R. Killian, Jr., president of the Massachusetts Institute of Technology as well as chairman of the President's Board of Consultants on Foreign Intelligence Activities, and asked his help in bringing under one roof a permanent corps of civilians to assist the Joint Chiefs of Staff's Weapons Systems Evaluation Group in arbitrating the Pentagon's numerous internal

battles over such problems as which missile system to fund. The result was the Institute for Defense Analysis, an academic think tank formed originally by MIT, the California Institute of Technology, the Case Institute of Technology, Stanford, and Tulane, and later joined by seven other universities.

Following the Baker Committee report, Killian, who was now the chairman of the board of IDA, was asked to establish a similar organization for the NSA. He agreed to do so; and following the receipt of \$1.9 million in 1958, IDA's Communications Research Division was formed, and planning began for the building of offices and laboratories on Princeton's campus.

Despite the assertion of one official of the institute that IDA has always been "completely independent of the government" in order to ensure that the institute would be "able to carry out studies that don't merely support some preconceived idea of the government," the CRD has always had the most intimate ties with the NSA. Selected as CRD's first director was Dr. J. Barkley Rosser, fifty, a professor of mathematics at Cornell and a specialist in numerical analysis. Chosen as his deputy, however, was Dr. Richard A. Leibler, forty-four, a five-year employee of the Puzzle Palace and a chief architect of Project Focus. A former mathematician with the Sandia Corporation who had also taught, at various times, at the University of Illinois (where he became friends with another math professor, Dr. Louis W. Tordella), Purdue, and Princeton, Leibler was primarily interested in probability and statistics. He apparently enjoyed what he once referred to as "our lonely isolation in Princeton." In reference to NSA, he once wrote to William F. Friedman, "For reasons which you must appreciate, I try to get down there and back as soon as possible, so I usually manage to do all my work in a single day."

On September 12, 1961, A. Adrian Albert, aged fifty-five, chairman of the University of Chicago's mathematics department, replaced Barkley Rosser as head of the CRD. One of cryptology's earliest visionaries, Albert had seen the correlation between cryptography and higher algebra as early as 1941. In a paper entitled "Some Mathematical Aspects of Cryptography," he wrote, "It would not be an exaggeration to state that abstract cryptography is identical with abstract mathematics."

Like that of his predecessor, Albert's tenure at CRD was also short. In 1963 Deputy Director Leibler dropped the "deputy" from his title and moved into the director's office, thus tying the knot between the NSA and CRD all the tighter. The relationship must have been a good one. Leibler continued as director for the next fourteen years,

leaving Princeton only in 1977 to return to the NSA as chief of the Office of Research within the Research and Engineering Organization.

Leibler was replaced by Dr. Lee P. Neuwirth, forty-three, who had served as deputy director for the previous twelve years. He had first joined CRD as a mathematician in 1961, two years after receiving his Ph.D. from Princeton.

Labeled "the most secret of the major think tanks" by Paul Dickson, in his book *Think Tanks*, IDA has its headquarters in a ten-story, concrete-and-glass high-rise across an acre of parking lots from the Pentagon. Eschewing even the smallest sign, IDA makes a point of not advertising its existence.

In the fall of 1967, partly as a result of this penchant for secrecy and the institute's heavy involvement in the Vietnam War, members of Princeton's chapter of the Students for a Democratic Society staged a demonstration in front of Von Neumann Hall, demanding that the university sever its ties with the institute. The students argued that Princeton's participation in IDA necessarily involved them indirectly in the war and also tended to compromise academic freedom by involving academicians in secret scientific projects whose findings could not be widely shared.

The protest against IDA spread to other campuses, and in the spring of 1968 it became one of the rallying cries of the students who staged the eight-day takeover at Columbia University.

The issue was finally resolved by the universities' agreeing to drop their official links with the institute while continuing to permit a representative of each school to serve in an individual capacity as a trustee.

Following the protests, the CRD quietly packed up and moved into a boxy, three-story brick building virtually hidden in an isolated wooded area off campus. Windowless except for the third floor, the building has, again, absolutely no signs indicating the name of the occupant.

By February 1970, IDA had grown into five divisions and three groups, comprising 285 professionals and a support staff of 274, with an annual income of a little more than \$13 million. CRD, one of the smallest divisions, consisted of twenty-seven professionals (up only three from its first year) and thirty-three support personnel. The professionals, mostly mathematicians, were normally borrowed from universities on one-year contracts and were usually given far more latitude in attacking problems than their counterparts in NSA's Research and Engineering Organization.

The CRD's statistics are, however, a bit misleading. Shortly after the division's birth, several programs were launched to bring into the secret fraternity several dozen of the nation's most outstanding academic minds in mathematics and languages. The programs formed what must have been the country's most exclusive summer camp. Known as SCAMP, for Summer Campus, Advanced Mathematics Program, and ALP (the CRD wisely dropped the first two letters) for Advanced Language Program, the projects involved bringing together a wide variety of senior university scholars, introducing them to the mysteries of cryptology, and applying their collective genius to some of the NSA's most perplexing riddles.

Cleared and indoctrinated for top secret SIGINT and COMSEC material, the SCAMP and ALP participants, usually tenured professors from some of the nation's best schools, would arrive with their families in early summer and attend symposia and lectures in a specially built, heavily secured building on the campus of the University of California at Los Angeles. To avoid creating suspicion, the participants would be paid directly by UCLA, which in turn was reimbursed by IDA-CRD, which in turn was paid by NSA.

With the ending of Project Lightning in 1962, so too ended NSA's support of unclassified public research. Lightning had helped prime the scientific pump, and competition within private industry, it was felt, would ensure that the flow of technological advances in the computer and associated fields would continue to pour out. The Puzzle Palace, through CRD, SCAMP-ALP, and a select number of key consultants and contractors, could now focus its full attention, as well as its dollars, on a science where there was no competition, where NSA alone controlled a monopoly: cryptology.

But along came Lucifer.

"NSA," the Agency declared with all due modesty, "certainly hastened the start of the computer age." Among the early products of that age was the use of computers in the banking industry for everything from the massive transfers of money between banks and other financial institutions, to the simple recording of a midnight transaction at a remote automatic teller. But there was another product: computer crime. With sufficient knowledge and the access to a terminal, one could trick the computer into transferring funds into a dummy account or tickle a cash-dispensing machine into disgorging its considerable holdings.

To counter such possibilities, and realizing that data communications held enormous market potential, IBM board chairman Thomas Watson, Jr., during the late 1960s set up a cryptology research group at IBM's research laboratory in Yorktown Heights, New York. Led by Horst Feistel, the research group concluded its work in 1971 with

the development of a cipher code-named Lucifer, which it promptly sold to Lloyd's of London for use in a cash-dispensing system that IBM had developed.

Spurred by the success of Lucifer, IBM turned to Walter Tuchman, a thirty-eight-year-old engineer with a doctorate in information theory, then working at the company's Kingston development lab. A sixteen-year veteran of IBM, Tuchman was asked to head up a data security products group that would transform Lucifer into a highly marketable commodity.

Aided by Carl Meyer, then forty-two, a German-born electrical engineer who had earned his doctorate from the University of Pennsylvania, Tuchman soon discovered that Lucifer would require considerable strengthening before it could withstand massive commercial use. The team spent the following two years tearing the cipher apart and putting it back together again, over and over, trying each time to give it more complex functions. The process included intense "validation," whereby experts would bombard the cipher with sophisticated cryptanalytic attacks. Finally, in 1974, the cipher was ready for market.

At about the same time that IBM was turning its attention to cryptography, another group was beginning to study the subject with great interest. In 1968 the National Bureau of Standards, charged since 1965 with developing standards for the federal government's purchase and use of computers, initiated a series of studies to determine the government's need for computer security. As a result of the studies, the NBS decided to search for an encryption method, or algorithm, that could serve as a governmentwide standard for the storage and transmission of unclassified data. Solicitation for such an encryption algorithm took place in May 1973 and August 1974.

The timing could not have been better for IBM, which submitted for consideration its Lucifer cipher. Labeled by David Kahn "the tiniest known 'cipher machine' ever produced," Lucifer actually consisted of a thumbnail-sized silicon "chip" containing an extremely complex integrated circuit. The "key" to the cipher was a long string of "bits" — o's and 1's — the combination of which would vary from user to user just as the grooves in front-door keys will vary from neighbor to neighbor.

Like the door key going into the lock, the cipher key goes into a series of eight "S-boxes," actually supercomplex mathematical formulas that, when combined with the particular key, transform intelligible data into indecipherable bits — and then perform the reverse magic on the other end.

Just as more grooves on the key usually means a more difficult

lock to pick, more bits in the cipher key will decrease the chances of successful cryptanalysis. For this reason IBM developed Lucifer with a key 128 bits long. But before it submitted the cipher to the NBS, it mysteriously broke off more than half the key.

From the very beginning, the NSA had taken an enormous interest in Project Lucifer. It had even indirectly lent a hand in the development of the S-box structures. "IBM was involved with the NSA on an ongoing basis," admitted Alan Konheim, a senior employee at IBM's Yorktown Heights lab. "They [NSA employees] came up every couple of months to find out what IBM was doing."

For the first time in its long history, NSA was facing competition from within its own country. The outsiders were no longer mere hobbyists but highly skilled professionals, supported by unlimited funds and interested more in perfection than in speed.

Viewed from within the NSA's barbed and electrified fences, the dangers were real. For years the Puzzle Palace had been growing more and more dependent on the ever-widening stream of international data communications flowing invisibly through the air. That air was alive with messages about oil from the Middle East, financial transactions from Europe, and trade strategies from Japan. The NSA simply had to stretch out its electronic net and pull in the most valuable economic intelligence.

Of equal or greater importance was diplomatic and military intelligence plucked from the Third World. Encrypted, for the most part, on antique, inexpensive, or unsophisticated machines, most communications from Africa, South America, and Asia were easy pickings for the NSA. Through the back door would occasionally pass such jewels as a Third World minister's report to his Foreign Office of an intimate exchange with a Soviet or Chinese counterpart. "It goes on all the time," said G Group chief Frank Raven. "You'd be astonished the amount of information that you get on Communist targets from non-Communist countries."

But the development and widespread use of an economical, highly secure data encryption device threatened to turn the NSA's wellstocked stream into a dry riverbed.

Nervousness over competition from the outside was not limited, however, to the codebreakers of PROD. The cryptographers of COMSEC were just as worried, although for the opposite reason. For them, the major fear was that, by accident, the outside researchers might stumble across methods the NSA itself used, thereby compromising the Agency's codes.

As a result of closed-door negotiations with officials of the NSA,

IBM agreed to reduce the size of its key from 128 bits to 56 bits. The company also agreed to classify certain details about their selection of the eight S-boxes for the cipher.

After the company submitted the now-truncated cipher, the Bureau of Standards passed it on to the NSA for what it called a "deep analysis." The Agency, in turn, certified the algorithm as "free of any statistical or mathematical weaknesses" and recommended it as the best candidate for the nation's Data Encryption Standard (DES).

The decision set off an immediate firestorm within the scientific community. Some critics, pointing to the shortened key, charged the NSA with ensuring that the cipher was just long enough to prevent penetration by corporate eavesdroppers but was just short enough for the NSA's own codebreakers. Others pointed to the Agency's tinkering with the critical S-boxes and expressed fears that it may have installed a mathematical "trap door," enabling it to spring open the cipher with little difficulty. Hence the insistence on classification.

The reason for such actions, said the critics, was simple. Since the DES would eventually be manufactured commercially and installed on a wide assortment of equipment sold abroad, the NSA would not want to cut its own throat by permitting the foreign proliferation of an unbreakable cipher. Yet weaknesses in the cipher would still allow the Agency to penetrate every communications link and data bank using the DES, American as well as foreign.

Code expert David Kahn theorized that there was a secret debate within the NSA over the DES. "The codebreaking side wanted to make sure that the cipher was weak enough for the NSA to solve it when used by foreign nations and companies," he reasoned. "The codemaking side," on the other hand, "wanted any cipher it was certifying for use by Americans to be truly good. The upshot was a bureaucratic compromise. Part of the cipher — the 'S-boxes' that performed a substitution — was strengthened. Another part — the key that varied from one pair of users to another — was weakened."

Leading the charge against the DES were Professor Martin E. Hellman and researcher Whitfield Diffie of Stanford University. The two computer experts argued that a computer capable of breaking the code could be built using one million special search chips, each chip capable of testing one million possible solutions per second.

Known within the Puzzle Palace as a "brute force" attack, the method involves acquiring a number of deciphered messages from the particular target and then, using high-speed computers, matching them against intercepted, encrypted versions of the very same messages. If an encrypted message is attacked with every possible version

of the code, at some point it will match its unencrypted counterpart. At that point the code evaporates, and all further messages are there for the taking.

How long it takes to break the code depends on the length of the key. For a 56-bit key, the number of possible combinations would be about seventy quadrillion. But using a computer with a million of the special-purpose chips, capable of testing one trillion possible keys per second, the entire range of possible keys could be searched in seventy thousand seconds — or less than twenty hours. On the average, however, Hellman noted, only about half of the keys would have to be tried before the appropriate key was found, making the average search less than half a day.

Then there is the matter of cost. According to the two Stanford scientists, the chips themselves could be produced for about \$10 each, or about \$10 million altogether. Allowing a factor of two for design, control hardware, power supplies, and the like, they concluded that such a computer could be built for about \$20 million. Depreciated over five years, Hellman and Diffie maintained, the daily operating cost drops to about \$10,000 a day, meaning that each solution would cost about \$5000.

Looking further into the future, they noted that the cost of computation and hardware had decreased by a factor of ten every five years since the 1940s. Thus, if the trend continued, the machine would cost only \$200,000 in ten years and each solution a mere \$50.

But suppose IBM had ignored the NSA and instead submitted its original 128-bit key? The results, said Hellman and Diffie, would have been dramatically different. As opposed to the moderate \$5000 price tag, each solution would cost an unimaginable \$200 septillion, or \$200,000,000,000,000,000,000,000.

Because of these concerns, the Bureau of Standards sponsored two workshops on the DES. At the first, in August 1976, NBS officials defended their choice for the DES and said that, given their existing machinery, a brute force attack would take seventeen thousand years. Yet the make-up of the NBS's DES team cast a shadow over the impartiality of the judgments. The leader of the bureau's computer security project was Dennis Branstad, a former employee of the NSA; Arthur Levenson, an NBS consultant on the project, had been, at least through the late 1960s, one of the NSA's most senior codebreakers as a group chief in PROD before he, apparently, left for IBM.

Other participants at the workshop disagreed on the costs, development time, and exhaustion time necessary to construct such a computer, with the majority suggesting ranges of two to ten years for construction, six months to ten years for exhaustion, and a price tag of from \$10 to \$12 million.

Also coming to the defense of the IBM algorithm were the cipher's inventors, Walter Tuchman and Carl Meyer. They said the cost of constructing a specialized DES codebreaking machine would be closer to \$200 million and that DES-based devices could be designed to encipher messages twice using two different keys, thus effectively doubling the key size to 112 bits. But as a trio of experts from Bell Labs pointed out, "Most data terminals will not be set up to do this."

Finally, the Senate Intelligence Committee looked into the controversy and concluded that, although the "NSA convinced IBM that a reduced key size was sufficient [and] indirectly assisted in the development of the S-box structures," they could find no wrongdoing.

The controversy over the DES has, for the time being, ebbed. On July 15, 1977, it became the official government civilian cipher, and a half-dozen firms began turning it out for private industry. Some, such as the American Banking Association, have endorsed it, but others, like the Bell Telephone Company, have resisted it.

But there is one thing on which all sides in the debate agree: the issue will soon arise again. As new advances in computer speeds and capabilities, and new technologies, such as Josephson Junction, cryogenics, and bubble memory, come into play, the safety margin offered by the cipher will gradually disappear. Some give the cipher five years; others give it ten; few give it more. The intervening years will be decisive.

In the same way that companies today are beginning to market the DES, an enterprise known as the Code Compilation Company opened its doors for business in New York in the 1920s. Located in a tall, gray office building at 52 Vanderbilt Avenue, the company compiled and sold a wide assortment of codes to various trade and other businesses. In the back of the company offices was a heavy, locked door, through which only company employees were allowed to pass. The reason for such secrecy was that the back room held the headquarters for Code Compilation's parent: Herbert Yardley's Black Chamber, America's secret codebreaking organization.

The question the nation must resolve during the years before a second-generation DES is developed is whether, as in the Code Compilation Company, there will be a secret door between public and governmental cryptology.

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Victorious in its battle over the DES, the NSA now set its sights on an even greater potential threat: academic research into cryptology.

Suddenly, on numerous campuses across the country, mathematicians and computer scientists began devoting substantial energies and resources to a subject that was once merely a strange word locked away in a dictionary. The research was both theoretical and applied; some scientists developed actual hardware, and others peered ever deeper into mathematical conundrums. So far had the interest gone that several colleges even offered courses in the subject, and in 1977 a scholarly journal devoted exclusively to cryptology was born.\*

What must have come as NSA's biggest blow took place in 1976. when the two anti-DES scientists from Stanford, Hellman and Diffie. came up with what David Kahn called "the most revolutionary new concept in the field since polyalphabetic substitution emerged in the Renaissance." Later refined by three scientists at MIT, Ronald Rivest, Adi Shamir, and Leonard Adleman, the system was labeled publickey cryptography and offered a radical new twist to an old concept. Rather than using the same key, as with the DES, to encrypt and decrypt, the public-key system allows for two separate keys — one limited to encryption and the other to decryption. What this means is that a person can now freely distribute his computer's encryption key, such as in a national directory, permitting anyone to send secret information to him. But only he is able to decrypt the messages, since he alone has the decrypt key. An added bonus of the system is that it also permits the sender of the messages to sign, in effect, in indelible code, thus ensuring the authenticity of the author.

The problem faced by the NSA in trying to halt this research, and thus restore its own hegemony, was that, unlike the industrial world, with its heavy dependence on defense contracts and its conservative boards of directors, the university researchers were independent. The cozy relationship that the Agency had fostered with IBM would be impossible with the free-wheeling academics. Nevertheless, virtually all the researchers had an Achilles' heel: the National Science Foundation.

Set up as an independent government agency to foster research into basic scientific knowledge, the NSF accomplished its goals by awarding grants and contracts to universities and nonprofit research organizations. It was through such grants and contracts that most of the nongovernmental cryptologists received their funding. Thus, it was reasoned at NSA, if the Agency could wrest control of all cryptologic funding, it would effectively control almost all outside research

<sup>\*</sup> One such course was taught by mathematics professor Cipher A. Deavours, Kean College of New Jersey, Union, New Jersey. The journal is *Cryptologia*, founded and edited by David Kahn, Cipher A. Deavours, Louis Kruh, and Brian J. Winkel.

in the subject. Such control could come to NSA if the NSF turned over to the Agency all responsibility for the cryptologic programs or, if this was not feasible, if it granted to the NSA the right to classify any program it deemed should be kept secret.

The first step in the NSA's power grab took place on April 20, 1977, when Assistant Deputy Director for COMSEC Cecil Corry (who by then had been with the Agency for thirty-five years) and one of his assistants, David G. Boak, journeyed down to Washington to meet with an NSF official at the foundation's G Street headquarters. The official was Dr. Fred W. Weingarten, the special projects program director of the Division of Computer Research, and the purpose of the meeting was to discuss the NSF's support of cryptographic research.

Corry, one of COMSEC's founding fathers and at this time the number two man in the organization, wasted little time in getting down to business. Soon after the meeting began, he suggested to Weingarten that an unspecified presidential directive gave the NSA "control" over all cryptographic work and that Weingarten and his foundation were operating outside that directive.

It was not the first time Weingarten had heard such a charge. Almost two years earlier, in June 1975, one of the NSF's grantees who also worked for the NSA told him that NSA "had sole statutory authority to fund research in cryptography, and, in fact, that other agencies are specifically enjoined from supporting that type of work." Weingarten, fearing that he may have been operating outside the law in awarding cryptographic grants, immediately suspended any new awards in the field and shot off a memo to NSF's general counsel asking for an opinion on the issue. Unable to find any such statute, Assistant General Counsel Jesse E. Lasken telephoned NSA's legal office, but no one there could find the supporting statute. The scare over, Weingarten's cryptographic funding continued.

Now he was hearing the threats again, but this time he told his two NSA visitors that his general counsel had looked into the matter nearly two years before and found no such directive involving research. The bluff having failed, Corry mumbled that they would have to get such a law passed and then resorted to his alternative strategy. Hoping to win for the NSA the power of the classification stamp over all cryptographic proposals, Corry suggested that the two agencies "coordinate" the review process for the proposals.

Because the NSA did have the only reservoir of expertise in the field, Weingarten agreed to send over the proposals, but only, he warned, so that NSA could provide its expert opinion on the technical

quality of the work. Further, he told Corry, his division would continue to consider proposals in the field of cryptology, that it would operate in as open a manner as possible, that it would decline proposals only for fully documented scientific reasons, and that he would not permit any "secret reviews — reviews of the form 'Don't support this, but I can't tell you why.'"

Weingarten could see the beginnings of a major power play involving the open research policy of the foundation and the national security claims of the NSA. Several days after the meeting he recorded his views concerning the looming battle in an internal memorandum for the record:

First — NSA is in a bureaucratic bind. In the past the only communications with heavy security demands were military and diplomatic. Now, with the marriage of computer applications with telecommunications in Electronic Funds Transfer, Electronic Mail, and other large distributed processing applications, the need for highly secure digital processing has hit the civilian sector. NSA is worried, of course, that public domain security research will compromise some of their work. However, even further, they seem to want to maintain their control and corner a bureaucratic expertise in this field. They point out that the government is asking NSA help in issues of computer security. However, unquotable sources at OMB tell me that they turned to NSA only for the short-term, pragmatic reason that the expertise was there, not as an expression of policy that NSA should have any central authority.

It seems clear that turning such a huge domestic responsibility, potentially involving such activities as banking, the US mail, and cable television, to an organization such as NSA should be done only after the most serious debate at higher levels of government than represented by peanuts like me.

Furthermore, no matter what one's views about the role of NSA in government, it is inescapable that NSF relations with them be formal. Informal agreements regarding support of areas of research or individual projects need to be avoided.

Apparently not having gotten the message, Corry wrote to Weingarten's boss, Dr. John R. Pasta, director of the NSF's Division of Mathematical and Computer Sciences, to say "We are grateful for your willingness to cooperate with us in considering the security implications of grant applications in this field."

Pasta sent the letter up through channels at the NSF, noting that his division had made no such agreement. Later he replied to Corry, "clarifying" the arrangements and adding that any review the NSA made on proposals would become part of the public record.

Meanwhile, on July 5, 1977, as each side continued to posture, Vice Admiral Bobby Inman moved into the Puzzle Palace, replacing newly promoted General Lew Allen, Jr. Inman's initiation into the battle was to be a quick one. The day after his arrival, one of his civilian employees, Joseph A. Meyer, having decided that the issue of public research into cryptology was destined to be as ignored under Inman as it was under Allen, took action. Without any authorization, he wrote a threatening letter to the Institute of Electrical and Electronic Engineers (IEEE), the nation's largest professional engineering society (of which he was a member), warning that those planning to participate in an upcoming IEEE symposium on cryptology might violate the law.

Among those who would be speaking and presenting papers at the October gathering were public-key originators Martin Hellman and Ronald Rivest. What bothered Meyer so much was not only that the meeting was going to be open to the public, but that a number of foreign guests would also be attending and participating. Worse, there were plans to send copies of the talks, before they were delivered, to the Soviet Union under a general umbrella agreement made by the IEEE several years earlier.

In his single-spaced, one-and-a-half-page letter, Meyer brought up the International Traffic in Arms Regulations (ITAR), through which the State Department controls the export of arms, ammunition, and "implements of war," like jet fighters and warships, which are listed in a document known as the U.S. Munitions List. Also on the list, under Auxiliary Military Equipment, were cryptographic devices, speech scramblers, privacy devices, and their associated specialized equipment.

What Meyer emphasized was that ITAR covered the export not only of actual hardware, but also of unclassified technical data associated with the restricted equipment. He claimed that holding symposia and publishing papers on cryptology were the same as exporting the information. Thus, he concluded, "unless clearances or export licenses are obtained" on some of the lectures and papers, "the IEEE could find itself in technical violation of the ITAR."

He had a point. The ITAR did cover any "unclassified information that can be used, or adapted for use, in the design, production, manufacture, repair, overhaul, processing, engineering, development, operation, maintenance, or reconstruction" of the listed materials, as well as "any technology which advances the state-of-the-art or establishes a new art in an area of significant military applicability in the United States." And export did include transferring the information both

by writing and by either oral or visual means, including briefings and symposia in which foreign nationals are present.

But followed literally, the vague, overly broad regulations would seem to require that anyone planning to write or speak out publicly on any technology touching the Munitions List must first get approval from the State Department — a chilling prospect clearly at odds with the First Amendment and one as yet untested by the Supreme Court.

Nevertheless, the letter had its desired effect on the IEEE. Officials of the organization urged participants in the upcoming symposium to clear any questionable material with the State Department's Office of Munitions Control — thus, in effect, clearing it through the NSA.

Despite the fact that Meyer had penned his letter as a private citizen and a member of the IEEE, it was only a matter of days before it was discovered that he worked for NSA — which, of course, led many to believe that the letter was simply the NSA's covert way of stifling public cryptographic research.

Following a storm of embarrassing publicity over the incident, the Agency denied any connection with the letter, but for many the denial was insufficient. As a result, Inman sought help from a group he had come to know quite well during his years as director of Naval Intelligence and vice director of the Defense Intelligence Agency: the Senate Intelligence Committee. Inman asked the committee to conduct an impartial review of the Meyer affair and several other issues. The committee agreed, and in April 1978 it issued two reports, one classified and one unclassified, that acquitted the Agency of any involvement in the Meyer letter.

Possibly buoyed by the congressional vote of confidence, that same month the NSA took another giant step toward silencing the competition.

Six months earlier a foursome of inventors in Seattle, working in their spare time in the back of a garage, managed to develop a new type of voice scrambler. Led by thirty-five-year-old Carl Nicolai, a job-shopper, or technical "Kelly girl," the group called its new invention the Phasorphone and submitted a patent application in October 1977. In April 1978, Nicolai finally received a response from the Patent Office. But when he opened the letter, he was stunned. Instead of a patent, his hands held a strange form with the words SECRECY ORDER in large bold letters across the top.

Nicolai had suddenly been assaulted with one of the oldest weapons in the nation's national security arsenal: the Invention Secrecy Act. Passed in 1917 as a wartime measure to prevent the publication of inventions that might "be detrimental to the public safety or defense

or might assist the enemy or endanger the successful prosecution of the war," the measure ended with the conclusion of World War I. The act was resurrected in 1940 and was later extended until the end of the Second World War. Then, like the phoenix, it once again rose from the ashes with the passage of the Invention Secrecy Act of 1951, which mandated that secrecy orders be kept for periods of no more than one year unless renewed. There was a catch, however. The act also said that a secrecy order "in effect, or issued, during a national emergency declared by the President shall remain in effect for the duration of the national emergency and six months thereafter." Because no one ever bothered to declare an end to President Truman's 1951 emergency, the emergency remained in effect until September 1978.

Nicolai's secrecy order told him little except that he faced two years in jail and a \$10,000 fine for disclosing any aspect of his device "in any way to any person not cognizant of the invention prior to the date of the order." Nowhere on the order did it say why it was issued or who ordered the action.

Unknown to the Seattle inventor, the patent application for his backyard scrambler had traveled through one of the government's least-known bureaucratic labyrinths — one littered with such security classifications as SUPER SECRECY and BLUE SLIP. Once submitted to the Patent and Trademark Office, it, like all other applications, was sent to a unit called the Special Laws Administrative Group, better known as the Secret Group. Here, several dozen specially cleared examiners separate the applications into chemical, electrical, or mechanical inventions and then, using guide lists provided by the various defense agencies, determine whether any contain national security information. Those they suspect are passed on to the Pentagon's Armed Services Patent Advisory Board (ASPAB), a sort of clearing-house for secrecy orders, which then requests an opinion from the appropriate agency and coordinates the decision to invoke secrecy.

When Nicolai's Phasorphone reached the ASPAB, there was disagreement. The middle-level official at NSA responsible for such decisions wanted the secrecy order issued (although others within the Agency disagreed), and he was supported by the Air Force and Navy representatives. But the Army saw no reason for such a move, so the decision was kicked up to NSA's Director Inman for a final decision. He gave the go-ahead to the order.

Nicolai had thus become, in the slang of the ASPAB, a "John Doe." Of the three hundred or so secrecy orders issued each year, all but a very few are either on inventions the government has originated

itself and already classified, or on inventions somehow connected with the government. A John Doe is one of the few outside this circle. In this instance, John Doe was hopping mad.

The object of Nicolai's patent application and the NSA's anxiety was a voice privacy system that relied more, apparently, on the science of transmission security than cryptography. As opposed to cryptography, which merely renders the contents of a message unintelligible to those without the key, transmission security conceals the very existence of the message itself. The seed for the Phasorphone was planted in 1960 in an article on communications security by Alfred Pfanstiehl for Analog magazine. Pfanstiehl suggested that instead of the traditional method of transmission, where signals are sent between transmitter and receiver over a single frequency, a system of pseudorandom wave forms be used. Under such a system a code could be devised using pseudorandom alterations of the frequency spectrum exactly synchronized between transmitter and receiver. The system held promise for an area particularly vulnerable to eavesdropping: CB and marine band radio. But it could also be modified for telephone.

What was so worrisome to the NSA, it seems, was the movement by the private sector into yet another once-exclusive domain. For years the Agency had been putting strong emphasis on the marriage of cryptography and transmission security for hidden communications with submarines and clandestine agents in hostile foreign countries.\* Such techniques included frequency-hopping, where messages are bounced from frequency to frequency at more than a thousand times a second; burst communications, where a message is supercompressed into a brief "squirt"; and spread spectrum techniques, where a signal is first diluted to a millionth of its original intensity and then intermingled with background noise.

To add insult to injury, Nicolai was planning to market his Phasorphone at a price most buyers could easily afford, about \$100, thus increasing the interest in the technology.

That the NSA was suddenly attempting to flex its muscles in the patent area could be seen in the fact that the very day Nicolai's secrecy order was issued, another inventor was opening a secrecy order on

<sup>\*</sup> In 1973, TRW began designing a satellite system for use by the CIA in communicating with agents in "denied areas." Code-named Pyramider, the system employed frequency-hopping. This provided the agent with large "safe areas" in cities, where the signals could be hidden among random urban radio transmissions. The system was also capable of reducing aircraft interception in remote areas to a radius of twenty nautical miles. (See Robert Lindsey, *The Falcon and the Snowman* [New York: Simon & Schuster, 1979], page 218.)

yet another invention. Dr. George I. Davida, a professor of electrical engineering and computer science at the University of Wisconsin, had submitted a patent application for a "stream" cipher device, incorporating advanced mathematical techniques, about the same time Nicolai submitted his Phasorphone application. Now, like his Seattle counterpart, Davida had also become a John Doe.

Whatever the NSA had hoped to accomplish by its rapid one-two punch was lost in the embarrassing public battle that followed. Soon after Davida received his secrecy order, Werner Baum, chancellor of the University of Wisconsin's Milwaukee campus, sent off a letter to the director of the National Science Foundation, which sponsored Davida's project, denouncing the secrecy order and calling for "minimal due process guarantees." He then told Science magazine that he regarded the order an invasion of his faculty's academic freedom and said it smacked of McCarthy-era tactics against universities.

After first winning the support of Senator Warren Magnuson, Nicolai also turned to *Science* and later charged that the order "appears part of a general plan by the NSA to limit the privacy of the American people." He added, "They've been bugging people's telephones for years and now someone comes along with a device that makes this a little harder to do and they oppose this under the guise of national security."

The warfare was soon publicized by the national media, and the NSA was forced to sound retreat. It rescinded Davida's secrecy order on June 15, blaming it on a "very well-meaning, middle-level bureaucrat" at NSA and an "attempt to hold the line that had clearly already been passed." Nicolai, however, did not have his secrecy order cancelled until October 11. "There I was, faced with a split decision inside NSA over whether the Nicolai invention represented a threat," Inman said later. "From dealing day by day with the Invention Secrecy Act, you have to make a quick, snap decision."

The bruises the Puzzle Palace had received in struggles over the DES, the Meyer letter, and the secrecy orders had taken their toll on both the Agency and its director. Inman believed the NSA had received a "bum rap" and was afraid the one-sided controversy was having a demoralizing effect throughout the Agency and that it would frighten away many promising recruits. Even worse, he told a closed-door meeting with employees in the Friedman Auditorium, some of the news stories were threatening to cause "immediate damage" to the Agency's sensitive "sources and methods."

The director's tactic was to launch a counterattack on two fronts—one in the open and the other behind the scenes. On the open front,

Inman decided to convert to his own use what he believed was his opponent's biggest weapon: the media. Both Nicolai and Davida, he felt, had used the press to manipulate the NSA. Now he himself would begin manipulating the press for the Agency's benefit.

The first round in Inman's public relations war was fired shortly after he rescinded Nicolai's secrecy order. For the first time in the NSA's twenty-six-year history, an incumbent director would grant an interview to a member of the press. Inman told *Science* magazine's Deborah Shapley that because of the "burgeoning interest" in cryptology, he felt it was necessary to

find a way into some thoughtful discussion of what can be done between the two extremes of "that's classified" and "that's academic freedom" . . . Security has served the national interest with respect to the NSA extraordinarily well over a long period. So a whole series of directors have taken the view that "no comment" was the best response. But as we moved into burgeoning public interest in public cryptography, a substantial volume of unfavorable publicity has occurred with no counterbalance . . . to point out that there are valid national security concerns.

Despite the ballyhoo, Inman's "interview" was little more than a monologue; the only area he would discuss was NSA's side of the Davida-Nicolai controversy. With regard to Davida, Inman said, the order was a "bureaucratic error, because, as it turned out, the material had already appeared in the open literature and so could not be classified." In Nicolai's case, he admitted that there was disagreement among the reviewers and that he had opted to "err on the side of national security." As a result of the publicity brought on by the two cases, Inman said, he had instituted a new procedure whereby any pro-secrecy order decision is automatically reviewed by a high-level committee. Nevertheless, he noted, "we would . . . [classify] any application where we feel there is a valid national security use or concern."

But Inman's most telling comment was his statement to Shapley that he would like to see the NSA receive the same authority over cryptology that the Department of Energy enjoys over research into atomic energy. Such authority would grant to NSA absolute "born classified" control over all research in any way related to cryptology.

"A public address by an incumbent Director of the National Security Agency on a subject relating to the Agency's mission is an event which if not of historic proportions is at least, to my knowledge, unprecedented." So began Admiral Inman's second venture into the spotlight. "Traditionally," he continued, "NSA had maintained a policy of absolute public reticence concerning all aspects of our mission." But now, he said, "the Agency's mission no longer can remain entirely in the shadows."

Speaking before a symposium of the Armed Forces Communications Electronics Association at the State Department in January 1979, Inman elaborated on the dangers inherent in "unrestrained public discussion of cryptologic matters" to which he had previously only alluded. Warned Inman:

Application of the genius of the American scholarly community to cryptographic and cryptanalytic problems, and widespread dissemination of resulting discoveries, carry the clear risk that some of NSA's cryptanalytic successes will be duplicated, with a consequent improvement of cryptography by foreign targets. No less significant is the risk that cryptographic principles embodied in communications security devices developed by NSA will be rendered ineffective by parallel nongovernmental cryptologic activity and publication . . . All of this poses clear risks to the national security [and places the mission of the NSA] in peril.

Following his "sky is falling" address, Inman again called for increased governmental controls over outside cryptologic research. "While some people outside NSA express concern that the government has too much power to control nongovernmental cryptologic activities," he said, "in candor, my concern is that the government has too little."

As a result of Inman's call for a "dialogue" between the NSA and the academic community, the American Council on Education established a Public Cryptography Study Group to investigate, and recommend possible solutions to, the problems facing both groups. Cochairmen of the group were Werner A. Baum, the former University of Wisconsin chancellor who went to Davida's rescue and is now a dean at Florida State University, and Ira Michael Heyman, chancellor of the University of California at Berkeley. The seven other members were mostly professors of mathematics and computer science from various universities. Representing the NSA was General Counsel Daniel C. Schwartz.\*

<sup>•</sup> The scientist-members were David H. Brandin, vice president, Computer Science and Technology Division, SRI International (nominated by the Association for Computing Machinery); Professor R. Creighton Buck, Department of Mathematics, University of Wisconsin (nominated by the American Mathematical Society); Professor George I. Davida, Department of Electrical Engineering and Computer Science, University

Inman proposed that the group consider the feasibility of a statute permitting the NSA to exercise prepublication censorship over a "central core" of nongovernmental technical information relating to cryptology. Such a statute, the group concluded, could be implemented either by making it a crime to disseminate cryptologic information or by requiring prepublication review by a government agency, such as the NSA. Under the first practice, the NSA would monitor virtually all published information and recommend criminal prosecution in any instances where restricted cryptologic information has been published. Under the second, anyone publishing cryptologic information without first having it cleared by the NSA would face a jail sentence.

Recognizing the constitutional questions involved in such drastic actions, the study group decided on a middle ground: a system of voluntary censorship. Under such a system, the NSA would reserve the right to notify anyone working on cryptologic writings — authors, researchers, publishers — of its desire to review such information before publication. The Agency would then request those individuals whose writings contained material that the NSA desired withheld to voluntarily refrain from publishing them. In case of disagreement, a five-member advisory committee appointed by the director of NSA and the science adviser to the President would make the ultimate recommendation.

The final vote on the voluntary system passed with near-unanimity on February 7, 1981. The sole dissenting voice was George I. Davida's, one of the only two specialists in data security in the group. Davida believed the decision of the study group was both unwise and dangerous and would set a precedent for future nonvoluntary intervention by the NSA in the academic community.

Two years from now [he later wrote], if the NSA decides that it does indeed wish to impose restraints, the question will no doubt receive a hearing in Congress. It is easy to imagine the NSA offering the decision of our study group to Congress as evidence that academicians do indeed agree with the NSA—that our work could compromise the national security... It would be only too easy for us to lose our constitutional freedoms in bits and pieces... One gets the impression that the NSA is struggling to stand still, and to keep American research standing still

of Wisconsin (nominated by the Computer Society of the IEEE); Professor George Handelman, Department of Mathematical Sciences, Rensselaer Polytechnic Institute (nominated by the Society for Industrial and Applied Mathematics); Professor Martin E. Hellman, Department of Electrical Engineering, Stanford University (nominated by the IEEE); Professor Wilfred Kaplan, Department of Mathematics, University of Michigan (nominated by the American Association of University Professors).

with it, while the rest of the world races ahead . . . The NSA can best perform its mission in the old-fashioned way: Stay ahead of others.

Meanwhile, as the Agency continued its public campaign, it was also making significant headway on its second front — the quiet, behind-the-scenes effort to gain control from the National Science Foundation of all cryptologic funding. By controlling the dollars, the NSA would control the research.

Following a briefing on the NSA's operations in September 1978, NSF director Richard C. Atkinson suggested to Admiral Inman that one way to help alleviate the problem of the foundation's research impinging on the NSA's "sensitive areas" would be to have the Agency begin a small (\$2 to \$3 million), unclassified research support program at various universities. In this way, Atkinson suggested, the NSF could shift its effort away from the cryptologic area as the NSA took up the slack.

It was the opening Inman had been hoping for, and he quickly replied to Atkinson that his offer was "most attractive" but that before any program was implemented, "some homework needs to be done here."

If there was any doubt as to Inman's ultimate intentions, it was dispelled during the first meeting of the Public Cryptography Study Group on May 31, 1980. Among those attending the meeting as an "authorized observer" was Richard Leibler, who was listed simply as "Chief, Office of Research, Department of Defense." In fact, Leibler, having served as director of the Agency's think tank, IDA-CRD, for fourteen years, was now head of NSA's Office of Research. In a remark that was never included in the minutes of the meeting, Leibler noted that the "NSA would take over the funding of cryptographic research grants from the NSF, assuming there are no legal impediments to such transfer and the study group produces worthwhile recommendations on how to effect it."

Apparently the study group never considered the proposal. Still, Inman was just about ready to begin his coup; all he needed was the right research project to come along. Two and a half months later, that project appeared. On Thursday, August 14, Leonard Adleman, a theoretical computer scientist at MIT and one of the fathers of public-key cryptography, received a telephone call from Bruce Barns of the NSF. To his surprise, Barns told him that the NSF had decided not to fund part of his grant proposal. When asked why, Barns merely said something about an "interagency matter."

The following day, Adleman received another call, this one from

Inman himself, who explained that the NSA wanted to fund his proposal. It was an unsettling experience, and Adleman wanted nothing to do with the Agency. "In the present climate I would not accept funds from the NSA," he later told *Science*. He said that he was concerned about the terms the Agency might extract, whether his funds would be cut off if the NSA insisted on classification and he refused, and whether he would be denied due process. He added, "It's a very frightening collusion between agencies."

The sudden intervention of the NSA apparently caught the NSF off guard. NSF director Atkinson had resigned only six weeks earlier, and the acting director, Donald Langenberg, had become deputy director just a few weeks before Atkinson departed.

Following the incident, both Inman and Langenberg met with White House science adviser Frank Press. It was decided that, at least for the time being, all proposals for cryptographic research would go first to the NSF and then to the NSA for technical review. Should the NSA find a proposal it wished to fund, it would so notify the NSF, which would offer the researcher a choice of accepting funds from either agency.

In reviewing the three and a half years of bureaucratic footwork engaged in by the NSA and the NSF, a congressional committee concluded that the history reflected "not that of two agencies at loggerheads, but of the mission-oriented NSA having sent the NSF a message in bureaucratic code that the latter is still struggling to decipher. The record leaves little doubt about NSA's intentions."

On September 15, 1981, Lieutenant General Lincoln D. Faurer, Inman's successor as DIRNSA, transmitted another message, this one to America's computer industry. Unlike the message to the NSF, however, this one went unencrypted.

Two months earlier, the NSA had unveiled its newest addition: the Computer Security Technical Evaluation Center. Its purpose is to analyze computer hardware and software produced by private industry and rate the products in terms of their potential vulnerability to penetration. Although submission was supposed to be strictly voluntary, Faurer, addressing a meeting of the IEEE, left little doubt that to ignore the Center would be to risk saying good-by to lucrative government contracts. "Frankly," the NSA chief warned, "our intention is to significantly reward those DOD suppliers who produce the computer security products that we need."

By using this carrot-and-stick approach, the NSA hoped to rapidly push ahead the development of secure computer systems by private industry and at the same time, through the Center, encourage the industry to share its innovations with the NSA. Lack of such cooperation, CIA Deputy Director Inman said at the Center's opening, "might lead to a highly undesirable situation where private-sector users (e.g., banks, insurance companies) have higher integrity systems than the government."

Despite their warnings, if the reaction of industry to the Center proves anything like the reaction of the professional societies to the Public Cryptography Study Group, Inman and Faurer are in for a disappointment. As of the spring of 1982, the voluntary review system of the Study Group had been all but officially ignored by its member societies. Most have taken a position similar to the IEEE, which leaves entirely up to the individual scientist the decision of whether or not to submit and makes no recommendation one way or the other.

Such lack of enthusiasm for the program may have prompted Admiral Inman's blast, in January 1982, that if the scientists did not agree to the voluntary review of their work by the intelligence agencies, they would face a "tidal wave" of public outrage that will lead to laws restricting the publication of scientific work that the government might consider "sensitive" on national security grounds.

As a result of what he called the "hemorrhaging of the country's technology," Inman warned a meeting of the American Association for the Advancement of Science that "the tides are moving, and moving fast, toward legislated solutions that in fact are likely to be much more restrictive, not less restrictive, than the voluntary" censorship system of the Study Group.

Thus far, however, Inman's "tidal wave" of public outrage has yet to dampen the soles of his shoes.

"THE PLO sends a man into New York, a terrorist, to place bombs . . . An American organization is backing a revolution in Haiti . . . A congressman is demanding money from a foreign government and you discover that from their communications . . . What do you do with it?" For fifteen years, G Group Chief Frank Raven struggled with such conundrums. Where to draw the line between foreign and domestic targets, legal and illegal interception, and foreign intelligence or law enforcement purposes?

"There was a big internal struggle within NSA on the question as to whether or not we should work domestic targets," Raven recalled, "and this is not an easy question. There is no such thing—and this is something I brought up before the Church Committee and they were screaming on it—you cannot divide your problems neatly and cleanly into internal U.S. and external U.S. . . . You have intelligence which is entirely foreign and you have intelligence which is entirely domestic. But then you have the third category which no one will recognize, which is intelligence which moves back and forth between them."

In this large gray area, where domestic and foreign intelligence overlap, one of the most sensitive issues involves the handling of communications of an "innocent" American — one neither targeted nor watch-listed — that are scooped into the vacuum cleaner. This happens with considerable frequency because of the way in which names and phrases are jam-packed into the computers. Even though NSA's specialized supercomputers have enormous storage capacities, the tremendous number of targets forces the Agency to squeeze the watch lists together as tightly as possible. Thus, according to Raven, programmers would simply reduce Malcolm X to the last two letters in his first name (lm) followed by a space and then the letter X. Then any time an intercepted data communication containing that

particular combination of letters and spacing (lm X) streamed past the computer's reading head, it would automatically be kicked out for further analysis.

Part of the reason that the computers are swamped with watch list submissions is that many items require numerous entries. When searching for derogatory references to President Richard M. Nixon, for example, technicians would have to program a variety of possible key words, such as "Tricky Dicky." This, according to the former G Group chief, would be converted to "ky----ky."

Should this selection process still produce a considerable amount of traffic, the data could then undergo "secondary testing," such as the addition of the words "New York," to reduce the volume. Nevertheless, after all the narrowing-down, if the total number of intercepts relating to innocent Americans was reduced to only 10 percent, the final amount would still be staggering. From Operation Shamrock alone, the total number of messages selected for final analysis came to approximately 150,000 per month. This is readily understandable when one considers that there are about twenty-four million international telegrams and fifty million telex messages that enter, leave, and transit the United States annually, plus millions of additional messages transmitted on leased lines. Added to this are billions of words and numbers entering and leaving the country each year over computer terminals.

And then there is voice. Although computers have not, apparently, advanced to the stage where they can economically pick out words and phrases from spoken communications, they can very easily be programmed to start the tape recorders rolling when they "recognize" targeted multifrequency address codes — the beedle-de-beep sounds one hears after dialing a long distance call — which indicate who is calling whom. Once these calls are recorded, analysts could listen for watchlisted information contained on their scan-guides.

In the past, NSA has had an internal policy of not releasing to other agencies the names of innocent American citizens or corporations incidentally picked up in their electronic dragnet. Thus, if the Belgian ambassador wires to his Foreign Office a bit of political gossip picked up from an American at a Washington cocktail party, the NSA would most likely pass the gossip on to the State Department but delete the name of the original source.

The reason for the NSA's policy was, in part, the fact that its mission was limited to foreign intelligence. But it was also based on the well-reasoned fear that if it gave the consumer the name of the American, that agency would then turn around and act on the information—

and possibly blow the whole intercept operation. For example, if the State Department were advised that the source of the gossip was the department's chief of protocol, it would be highly likely that the official would be confronted with the sensitive information, and the possibility of an ensuing leak would be greatly increased.

But the most difficult problems were those concerning innocent Americans involved in illegal activities. "You get a guy who calls from phone booths in Grand Central Station," recalled Frank Raven, "and he's moving around Grand Central Station — it isn't always the same phone booth — and he's talking to people in South America; he's making the arrangements for shipping in drugs." Under such circumstances, said Raven, "you can [report] till you're blue in the face about the arrangements that are being made outside of the U.S. territory," but when it came to identifying the possible American, all NSA could report was that "an unspecified drug dealer in Grand Central Station is ordering drugs from Venezuela . . . You tell the foreign intelligence which is contained in the communication but you do not in any way indicate the precise identity of the possible American citizen who's involved."

Understandably, many of NSA's consumers found the nondisclosure policy frustrating and sometimes irrational. In fact, in one case where the Agency refused to give out the name of an American business firm, the FBI fought the action all the way to the director of Central Intelligence — and lost.

On the other hand, drug dealers were not the only ones who unwittingly found their way into NSA's magnetic-tape library. Also captured were the hungry demands of wayward congressmen insisting on bribes from foreign governments, a circumstance that, according to Raven, placed NSA "on a first-class spot!" He pointed out that "you don't get this on the Communist problems . . . but you get it all the time — as a matter of fact, it's a daily episode to the chief of G Group." The way out of the spot, said Raven, was simply to do nothing. The message was buried away in a file and considered domestic intelligence.

Another NSA official caught up in the no-win situation of handling evidence of congressional wrongdoing was, apparently, Juanita M. Moody, the consumer staff liaison officer in Operations who was responsible for the distribution of all SIGINT throughout government. In 1977 she was reportedly called from retirement to testify secretly before the House Ethics Committee concerning her knowledge of intercepted cable traffic to and from the South Korean embassy, which may have contained evidence of congressmen taking

money from the South Korean government in exchange for influence.

Because South Korea came under B Group rather than G Group, Frank Raven was not involved in the "Koreagate" investigation. Nevertheless, there was little doubt in his mind as to how the possibly incriminating traffic was handled: "The fellow who decrypted them, the linguist who read them, would read them and file them."

One of the oldest, and probably most strictly followed, internal NSA guidelines was the prohibition against entirely domestic eavesdropping — where both terminals were located within the United States. It was possibly the rule that caused the most consternation, since it eliminated the possibility of collecting the communications between the foreign embassies in Washington and their consulates and UN missions in New York. "If the Russian [consulate] in New York calls the Russian embassy in Washington, that's domestic intelligence," complained Frank Raven. "If it's going to South America, it's all right . . . but if it's going between New York and Washington, you can't touch it."

For twenty-five years the NSA struggled in total secrecy over the questions of foreign versus domestic intelligence collection. Its power to eavesdrop, the Agency had always insisted, came under no earthly laws but rather emanated from some celestial "inherent presidential authority" reposed in the chief executive by the Constitution. But on March 23, 1976, in the wake of Watergate and the far-ranging intelligence abuses uncovered by the Church and Pike Committees, President Ford gave his blessings to a Senate bill that would have eliminated much of that "inherent authority" and, for the first time, required the NSA to submit to judicial review before initiating certain surveillances.

Known as the Foreign Intelligence Surveillance Act (FISA), the bill was introduced by Senator Edward M. Kennedy following months of closed-door negotiations with the Justice Department. For Kennedy, it was his fourth attempt in as many years to get legislation regulating warrantless eavesdropping — and the first time he had received administration support. Nevertheless, despite favorable endorsements by both the Senate Judiciary Committee and the Senate Intelligence Committee, the legislation was lost because the session ended before the full Senate could act.

There was a second unsuccessful attempt to get the bill passed in 1977, but the FISA was finally signed into law by President Jimmy Carter, who also backed the bill, on October 25, 1978.

For decades the technology of espionage had greatly outpaced the law. Now, with the FISA, the lawmakers were attempting to catch

up. The statute would at last bring under the rule of law an area of surveillance that had heretofore been considered far too sensitive even to discuss with another branch of government: electronic eavesdropping within the United States on foreign embassies, diplomats, and agents of foreign powers.

The key to the legislation could have been dreamed up by Franz Kafka: the establishment of a supersecret federal court. Sealed away behind a cipher-locked door in a windowless room on the top floor of the Justice Department building, the Foreign Intelligence Surveillance Court is most certainly the strangest creation in the history of the federal Judiciary. Its establishment was the product of compromises between legislators who wanted the NSA and FBI, the only agencies affected by the FISA, to follow the standard procedure of obtaining a court order required in criminal investigations, and legislators who felt the agencies should have no regulation whatsoever in their foreign intelligence surveillances.

To settle the problem of where to draw the line between foreign and domestic intelligence, the legislation established a complex authorization procedure and added a strict "minimization" requirement to prohibit the use and distribution of communications involving Americans inadvertently picked up during the intercept operations.

A typical situation involving the NSA might originate with a CIA requirement to begin monitoring the Greek Tourist Information Offices in New York, Washington, and San Francisco as a result of a number of pro-Soviet and anti-American actions taken by the newly elected Greek Prime Minister, Andreas Papandreou.

After first being filtered through the intelligence community's National Intelligence Tasking Center and being placed on the IGCP, the CIA requirement would then go to NSA's consumer staff liaison officer, who would pass it on to the chief of G Group, the organization in Operations responsible for coverage of Greece. The chief of G Group would meet with the chief of W Group, responsible for intercept operations, and determine that coverage of the tourist offices would be regulated by the FISA because of the necessity to intercept wholly domestic communications links, such as those between New York, Washington, and San Francisco.

The intercept proposal would gradually work its way up the chain of command to the deputy director for Operations, the deputy director of NSA, and then to the general counsel, who would have to determine whether the target of the surveillance was either a foreign power or an agent of a foreign power, and also that the place or facilities to be monitored were in fact being used by the foreign target. This

авуss 369

requirement constitutes one of the most important parts of the FISA law and was included to prevent the watch-listing of American citizens, which took place during the 1960s and 1970s.

The Greek Tourist Offices would qualify under the FISA as "foreign powers," since they would be official entities "directed and controlled by a foreign government." At the same time, the employees of the tourist offices would also become legitimate NSA targets as long as they were neither American citizens nor resident aliens, although even both of those groups would qualify as targets if they engaged in "clandestine" activities involving criminal acts on behalf of the Greek government.

Next, the general counsel would have to ensure that the necessary "minimization" procedures were adequate to eliminate, as much as possible, the chances of interception, retention, and dissemination of information concerning United States citizens, which might occur, say, when an American citizen simply called one of the offices to find out the requirements for a visa. The FISA prohibits the Agency from keeping or distributing such information unless it can be determined that the information concerning the American relates to the ability of the United States to protect itself against a foreign attack or sabotage, terrorism, or clandestine activities by a foreign agent.

However, if the American's telephone call or message falls into the vague, broad areas of providing for the "national security, defense, or foreign policy of the United States," then the NSA would be authorized to pass along the communication, with the identity of the American eliminated, unless the identity would be necessary for the consumer to understand the importance of the communication.

A final exception authorized the Agency to distribute the communication if it relates to criminal activity, thus clearing up the conflict of how to handle such matters as the inadvertent picking-up of evidence of bribe-taking congressmen.

From the NSA general counsel, the surveillance application goes to the NSA director, the Secretary of Defense, and then to the Justice Department's highly secretive Office of Intelligence Policy and Review, where staff attorneys put the final touches on the documents and submit them to the Attorney General for final approval. If it is granted, the attorneys, accompanied by an official from NSA's Office of SIGINT Operations, enter the tightly guarded Foreign Intelligence Surveillance Court and argue the merits of the case across a long table from one of the specially cleared FISA judges.

Presiding over the Star Chamber of the federal Judiciary is George L. Hart, Jr., a federal district judge in Washington, D.C. He and six other federal judges\* from various parts of the country were handpicked by Supreme Court Chief Justice Warren E. Burger to serve on the surveillance court for staggered terms, the first terms ranging from one to seven years. Trading in their robes and gavels for cloaks and daggers, they come to Washington on a rotating basis and hold court in a secure conference room at the main Justice Department building.

Almost unheard of outside the inner sanctum of the intelligence establishment, the court is like no other. It sits in secret session, holds no adversary hearings, and issues almost no public opinions or reports. It is listed in neither the *Government Organization Manual* nor the *United States Court Directory* and has even tried to keep its precise location a secret. "On its face," said one legal authority familiar with the court, "it is an affront to the traditional American concept of justice."

Inside the court, the judge would have to determine whether there was "probable cause" to believe that the Greek Tourist Offices are "foreign powers" and that the employees were "agents of foreign powers." Also, he would have to determine that the minimization procedures conformed to the statute and, if an American was the target, that the government's certification that the surveillance meets FISA terms is not "clearly erroneous." If these requirements are met, the judge must issue a warrant authorizing the intercept. There are no provisions for the judge to "look behind" the application to determine the necessity or propriety of the surveillance. As long as he finds that the target is "foreign" and that the proper application procedures have been followed, he has no choice but to approve it.

Under such circumstances, it is little wonder that the federal government has never lost a case before the court. In the court's first fifteen months, ending in December 1980, it approved all 518 applications, including one order that granted even broader authority than that sought by the Justice Department. The court has continued to maintain its perfect record through at least August 1981 — with one exception. Shortly after the creation of the court, Justice Department lawyers began seeking warrants from the judges for authorization to conduct surreptitious entries — black-bag jobs — into various "nonresidential premises under the direction and control of a foreign power." When the Reagan administration came into office, however, the Justice De-

<sup>\*</sup> As of January 1982, they were Albert V. Bryan, Jr., son of the judge who had heard the case of Joseph Sidney Petersen, Jr. (Eastern District of Virginia), Frederick B. Lacey (District of New Jersey), Lawrence W. Pierce (Southern District of New York), Frank J. McGarr (Northern District of Illinois), William C. O'Kelley (Northern District of Georgia), and Frederick A. Daugherty (Western District of Oklahoma).

partment argued that the power for foreign intelligence black-bag jobs was vested not in the court, but in the inherent authority of the President. Presiding Judge Hart, in the court's only published opinion, agreed. Thus, in rejecting the administration's application for a new surreptitious entry, he was in fact going along with the argument of the Justice Department. As a result, the rejected breakin and all subsequent surreptitious entries need no court authorization, only presidential approval.

Given the fact that the top secret court has never said no to the government, it would be difficult to conclude that it has become anything other than a rubber stamp. How much of a rubber stamp may be judged by examining the way in which foreign intelligence surveillances were approved prior to the establishment of the court. Then the review was done by an interagency panel made up of the Secretaries of Defense and State and chaired by the director of Central Intelligence. The standards and methods of presenting the surveillance applications to the panel were substantially similar to the way they are handled by the court — but there was one key difference. Speaking of his experience with the review group, DCI Stansfield Turner once told the Senate Intelligence Committee, "I would point out there has been no meeting of the panel at which all of the requests before it were approved." It would appear that the surveillance requests were examined far more critically before the arrival of the court than since its creation.

Despite the court's tremendous emphasis on secrecy and security, there are several areas forbidden even from its review. One is the NSA's monitoring of telex and other data communications entering and leaving foreign embassies and other foreign-controlled properties, and the other is the monitoring of the dedicated, or leased, communications circuits used exclusively between foreign establishments in the United States. Thus, NSA would not have to seek an FISA warrant to intercept a radio or leased microwave circuit between the Soviet embassy in Washington and its UN mission in New York.

Because these two forms of eavesdropping, the House Intelligence Committee believed, included "some of the most sensitive surveillances which this Government conducts in the United States," the Congress excluded them from the jurisdiction of the spy court and placed the power to approve them exclusively in the hands of the Attorney General.

Even more disturbing than the apparent evolution of the surveillance court into an Executive Branch rubber stamp are the gaping holes and clever wording of the FISA statute, which nearly void it of usefulness. Such language, intentional as well as unintentional, permits the NSA to rummage at will through the nation's international telecommunications network and to target or watch-list any American who happens to step foot out of the country.

Once an American leaves the United States, he or she is stripped of any protection from the NSA. The Agency is permitted to target, record, transcribe, and disseminate any and all of his or her communications the same way it would the communications of the Red Brigades. There is no statutory requirement to seek approval from the surveillance court, the Attorney General, or any other authority.

Within the United States, the NSA is still free to pull into its massive vacuum cleaner every telephone call and message entering, leaving, or transiting the country, as long as it is done by microwave interception. And the Agency can program its high-speed computers and 22,000-line-per-minute printers to kick out every telegram or telex containing the word oil or the word Democrat while voice analysts, scan-guides in hand, listen attentively to every phone call between Washington and London, recording for later dissemination those containing the targeted subjects.

The major advantage of the FISA statute is that NSA is no longer permitted to target or watch-list Americans by name without an FISA warrant, even in international communications — as long as the person happens to be located on U.S. soil. Yet even this welcome reform appears to be undermined by what may be the Agency's most sinister loophole.

"Electronic surveillance," the statute reads, means "the acquisition by an electronic, mechanical, or other surveillance device" of the approved targets. But nowhere does the statute define the meaning of the key word acquisition. Rather, it is left to NSA to define — which it does in a top secret document. "Acquisition," according to the document, "means the interception by the National Security Agency through electronic means of a communication to which it is not an intended party and the processing of the contents of that communication into an intelligible form intended for human inspection."

By carefully inserting the words "by the National Security Agency," the Agency has skillfully excluded from the coverage of the FISA statute as well as the surveillance court all interceptions received from the British GCHQ or any other non-NSA source. Thus it is possible for GCHQ to monitor the necessary domestic or foreign circuits of interest and pass them on to NSA through the UKUSA Agreement. Once they were received, NSA could process the communications through its own computers and analysts, targeting and watch-listing

Americans with impunity, since the action would not be covered under the FISA statute or any other law.

That such action is far from improbable can be seen by the way NSA processed its domestic civil disturbance watch lists. According to the still classified Justice Department investigation into illegal NSA surveillance, "MINARET intelligence, except one category of international voice communications involving narcotics, was obtained incidentally in the course of NSA's interception of aural and non-aural (e.g., telex) international communications and the receipt of GCHQ-acquired telex and ILC [International Licensed Carrier] cable traffic (SHAM-ROCK)." [Emphasis supplied.]

Likewise, it is important to recall former Deputy Director Tordella's comment when referring to the CIA's withdrawal of support from NSA's drug monitoring: "It was in their General Counsel's opinion beyond CIA's charter to monitor radio communications on U.S. soil and I was told that if they could move a group of Cubans up to Canada it would be quite all right, but they would not do it in the United States."

Another worrisome aspect of the NSA definition is the inclusion of the words "through electronic means." This may be interpreted as excluding from the FISA statute the receipt of hand-delivered magnetic tapes from the communications companies, as was done in Operation Shamrock. In fact, the Church Committee in its final recommendations, from which much of the FISA statute is drawn, included specific language to prohibit just such transfers: "NSA should not request from any commercial carrier any communication which it could not otherwise obtain pursuant to these recommendations."

No such exclusion, however, was ever included in the final FISA statute. Instead, the statute now calls for what one constitutional law expert has termed "compulsory spy service," requiring "communications common carriers, their officers, employees, and agents . . . to provide information, facilities, or technical assistance to persons authorized by law to intercept wire or oral communications or to conduct electronic surveillance" and also ordering them to protect the secrecy of the operations.

Then there is the last, and possibly most intriguing, part of the definition, which stipulates that NSA has not "acquired" anything until the communication has been processed "into an intelligible form intended for human inspection." NSA is therefore free to intercept all communications, domestic as well as foreign, without ever coming under the law. Only when it selects the "contents" of a particular communication for further "processing" does the FISA take effect.

The same classified document that defines "acquisition" also attempts to resolve another thorny question constantly faced by intercept operators: "If you're intercepting a link," Frank Raven recalled, "let's say from Paris to Stockholm, and you get a message on there—how do you know whether or not the guy is an American citizen? And believe me, the fact that he's got an Anglo name does not make him an American citizen."

The answer was to establish a policy whereby, according to the NSA document,

a person known to be currently in the United States will be treated as a United States person unless that person is positively identified as an alien who has not been admitted for permanent residence or unless the nature of the person's communications or other indicia in the contents or circumstances of such communications give rise to a reasonable belief that such person is not a United States person.

On the other hand, a person "known to be currently outside the United States, or whose location is not known, will not be treated as a United States person" unless there is positive identification or it can be reasonably determined from the conversation or other factors. Therefore, according to Raven, a person would be presumed to be an American citizen simply because of "the fact that he called from Grand Central Station — you just say 'a possible American citizen."

On January 24, 1978, President Jimmy Carter issued an executive order imposing detailed restrictions on the nation's intelligence community. The order was designed to prevent the long list of abuses of the 1960s and 1970s. But four years later President Ronald Reagan scrapped the Carter order and broadened considerably the power of the spy agencies to operate domestically.

First drafted by a working group chaired by CIA (and former NSA) general counsel Daniel B. Silver, a leaked copy of the new order created a storm of protest in March 1981, forcing former deputy director (and former DIRNSA) Admiral Bobby R. Inman to plead ignorance of the plan and publicly disavow the document. Nevertheless, after two more unsuccessful tries, a modified order was finally signed into law on December 4, 1981.

Although the order primarily expanded the activities of the CIA, a number of sections related to the NSA, as well. Under "Conduct of Intelligence Activities," the order formally placed the power to authorize domestic black-bag jobs in the hands of the Attorney Gen-

eral, provided he found "probable cause" to believe that the entry would be directed against a "foreign power or an agent of a foreign power."

The Reagan order also cleared up a long-standing question: whether the NSA has the authority to aid federal and state law enforcement agencies in cryptanalysis not related to signals intelligence. This might be an FBI case involving a coded note passed between two organized crime suspects. To handle such cases, the FBI has long had its own secretive Cryptanalytical and Translation Section, a part of the Technical Evaluation Unit of the FBI Laboratory. For many years the FBI hid the unit in an unmarked, cream-colored building at 215 Pennsylvania Avenue in the southeast section of Washington, a stone's throw from the Capitol.

Hunched over pads of green graph paper, FBI codebreakers spend most of their time attacking "bookie" cryptosystems, in which the betting data — tracks, horses, wagers — are reduced to numbers, and the numbers then enciphered. Hundreds of such systems are broken with little difficulty each year. But every so often in the past a particularly complex system would come up, and the G-men would turn to the Puzzle Palace. The requests would normally be handled very informally, usually a phone call from FBI associate director William C. Sullivan to G Group chief Frank Raven. "The type of message which they brought to us was sometimes quite sophisticated." Raven recalled, "but they did not require major expenditures or even significant expenditures of manpower or equipment . . . We used to give them to our cryptanalysts to take cracks at in their spare time. In short, not on company time take a look at this and see if you can break it, and they would break them over lunch . . . and send them back to the FBI.'

The cases sent to G Group ranged from simple bookies to complicated murders. One case involved a massive numbers racket that was centered at the Pentagon. The details of the transactions were enciphered, as were the names of the organizers and players. Once NSA broke the system and the FBI began picking up the individuals, there was a blood bath as the chief numbers runners began taking shots at one another, each believing the other to be the informant.

Not all the cases, however, involved traditional paper-and-pencil ciphers. For months the FBI and postal inspectors were trying to build a conspiracy case against a number of racketeers in various parts of the country, but there was never any communication between them. In fact, there was really only one common denominator — they all mailed their fancy \$100 shirts to the same cleaners in Las Vegas.

The FBI, believing the shirts to be a secret code, quietly called in the NSA, and analysts in G Group began setting up charts. Everything was logged — the numbers of shirts, the colors, the sizes, the buttons. One person even searched for a hidden pattern in the odors and religiously sniffed each intercepted shirt, dutifully logging the results (presumably from sweet to foul). In the end, the key was determined to be the number of shirts sent each time — and the FBI rounded up the culprits.

As each case was attacked and, with luck, solved, the chances of NSA's involvement being discovered grew appreciably, and by the early 1970s all cooperation had ceased. At one point the Agency was requested to aid in solving a number of cryptic notes left by a mass murderer but the answer remained no.

Under the Reagan executive order, the NSA can now, apparently, be authorized to lend its full cryptanalytic support — analysts as well as computers — to "any department or agency" in the federal government and, "when lives are endangered," even to local police departments.

But it was not the interception of dirty laundry that caused the Church Committee to issue the warning that "NSA's potential to violate the privacy of American citizens is unmatched by any other intelligence agency." It was, instead, a fear similar to that expressed by David Watters, the telecommunications engineer who formerly worked with the CIA's communications research and development branch:

Tons of electronic surveillance equipment at this moment are interconnected within our domestic and international common carrier telecommunications systems. Much more is under contract for installation. Perhaps this equipment is humming away in a semi-quiescent state wherein at present "no citizen is targeted"; simply scanned . . . How soon will it be, however, before a punched card will quietly be dropped into the machine, a card having your telephone number, my telephone number, or the number of one of our friends to whom we will be speaking?

In the thirty years since Harry Truman issued NSA's birth certificate, the nation has undergone two parallel revolutions. On the one hand, microwaves and satellites have so transformed telecommunications that the wire has become almost obsolete. Today there are nine domestic satellites\* in orbit and many more in use for international

\* Three are operated by Western Union, two by RCA American Communications, Incorporated (RCA American), three by COMSAT General Corporation (for the use

communications, each with a capacity of thousands of circuits. Each of COMSAT's four domestic COMSTAR satellites alone has eighteen thousand long-distance circuits. Traveling over these invisible pathways are not only millions of telephone conversations, but tens of billions of words and numbers, ranging from simple telegrams and telex messages to complex computer data transfers. Even the mail is now beginning to travel by microwave and satellite.

In 1980 the United States Postal Service inaugurated an international electronic mail system known as INTELPOST (international electronic post), whereby anything from letters to blueprints can be transmitted rapidly to an addressee via satellite and cooperating overseas post offices.\* Closer to home, the Postal Service in January 1982 launched an enormous domestic electronic mail service. Known as Electronic Computer-Originated Mail, or ECOM, the system permits the post office to sort and transmit electronic, computer-generated messages by satellite to post offices around the country. Each office can then print the contents and automatically fold, seal, and stamp the messages for delivery by letter carrier.

In 1982 the system is expected to handle twelve million messages, but by 1990 RCA, the major builder of the system, envisions that fully one third of the nation's projected seventy-five billion pieces of letter mail handled by the post office will travel invisibly through the air. So promising is electronic mail that IBM, AT&T, Xerox, and other major technology giants are planning to get in on the act with their own systems.

At the same time, a similar revolution has transformed the nation's intelligence collection system. Where once America's chief source of raw intelligence was the clandestine agent with his or her Minox camera, today that source is the same worldwide blanket of microwave signals and rivers of satellite transmissions that gives us our telephone calls, our remote banking, telegrams and, soon, our mail. Diverted into the Puzzle Palace by the Agency's far-flung network of dish-covered intercept stations, the processed signals yield a rich cargo of economic, political, diplomatic, and military intelligence.

"HUMINT [Human Intelligence] is subject to all of the mental aberrations of the source as well as the interpreter of the source," Lieutenant General Marshall S. Carter once explained. "SIGINT isn't.

of the American Telephone & Telegraph Company and GTE Satellite Corporation), and one by Satellite Business Systems (a data communications consortium of COMSAT, IBM, and the Aetna Insurance Company).

<sup>•</sup> INTELPOST serves fifty foreign cities. Messages are routed to Canada via terrestrial circuits, then by international satellite to other participating countries.

SIGINT has technical aberrations which give it away almost immediately if it does not have bona fides, if it is not legitimate. A good analyst can tell very, very quickly whether this is an attempt at disinformation, at confusion, from SIGINT. You can't do that from HUMINT; you don't have the bona fides — what are his sources? He may be the source, but what are his sources?"

Having served as deputy director of the CIA and director of the NSA, Carter was one of the very few people to have been intimately associated with both collection systems, and in his opinion SIGINT won by a wavelength. "Photo interpretation," he explained, "can in some cases be misinterpreted by the reader or intentionally confused by the maker in the first place—camouflage, this sort of thing. SIGINT is the one that is immediate, right now. Photo interpretation, yes, to some extent, but you still have to say 'Is that really a fake, have they confused it?' It is better than HUMINT, it is more rapid than HUMINT [but] SIGINT is right now; its bona fides are there the minute you get it."

The major problem with the two revolutions, the tremendous advances in the use of satellite and microwave technology and the enormous growth of SIGINT, is that they have left a void where there should have been a third revolution: the law. Three decades after its creation, the NSA is still without a formal, statutory charter, the first reform called for by the Church Committee. Instead, there is a super hush-hush surveillance court that is virtually impotent; the FISA, which has enough loopholes and exceptions to render it nearly useless; and an executive order that was designed more to protect the intelligence community from the citizens than citizens from the agencies. In addition, because it is an executive order, it can be changed any time at the whim of a President, without so much as a nod toward Congress.

Like an ever-widening sinkhole, NSA's surveillance technology will continue to expand, quietly pulling in more and more communications and gradually eliminating more and more privacy. The task will become increasingly easy throughout the 1980s as voice communications are converted to digital signals, a goal expected to be reached by 1990. When that happens, it will be as easy to run a telephone conversation through a computer, preprogrammed with watch words, as it is now to run through data communications. Of course, by then the ultimate computer may have been developed, one that will be able instantly to transcribe a spoken conversation.

More than fifty years ago, writing a dissenting opinion to a case which held that the Fourth Amendment warrant requirement did not

apply to the seizure of conversations by means of wiretapping, Supreme Court Justice Louis D. Brandeis envisioned a day when technology would overtake the law:

Subtler and more far-reaching means of invading privacy have become available to the government . . . [and] the progress of science in furnishing the government with means of espionage is not likely to stop with wiretapping. Ways may some day be developed by which the Government, without removing papers from secret drawers, can reproduce them in court, and by which it will be enabled to expose to a jury the most intimate occurrences of the home . . . Can it be that the Constitution affords no protection against such invasions of individual security?\*

If there are defenses to such technotyranny, it would appear, at least from past experience, that they will not come from Congress. Rather, they will most likely come from academe and industry in the form of secure cryptographic applications to private and commercial telecommunications equipment. The same technology that is used against free speech can be used to protect it, for without protection the future may be grim. Referring to the NSA's SIGINT technology, Senator Frank Church concluded:

At the same time, that capability at any time could be turned around on the American people and no American would have any privacy left, such [is] the capability to monitor everything: telephone conversations, telegrams, it doesn't matter. There would be no place to hide. If this government ever became a tyranny, if a dictator ever took charge in this country, the technological capacity that the intelligence community has given the government could enable it to impose total tyranny, and there would be no way to fight back, because the most careful effort to combine together in resistance to the government, no matter how privately it was done, is within the reach of the government to know. Such is the capability of this technology

I don't want to see this country ever go across the bridge. I know the capacity that is there to make tyranny total in America, and we must see to it that this agency and all agencies that possess this technology operate within the law and under proper supervision, so that we never cross over that abyss. That is the abyss from which there is no return.

<sup>\*</sup> Justice Brandeis answered his own question when he quoted from Boyd v. United States (116 U.S. 616): "It is not the breaking of his doors, and the rummaging of his drawers that constitutes the essence of the offense; but it is the invasion of his indefensible right of personal security, personal liberty, and private property." (277 U.S. 438, at pages 474-475.)

Appendix

Notes

Acronyms and Abbreviations

Index

# APPENDIX

# NSA Career Panels and Professions

Cryptanalysis

Cryptanalyst

Traffic Analysis

Traffic Analyst

Signals Collection

Collection Officer

Language

Linguist

Data Systems

Computer Systems Analyst

Communications Security

Communications Security Analyst

Engineering and Physical Science

Engineer

**Physical Scientist** 

**Engineering Specialist** 

Telecommunications

Telecommunications Officer

**Mathematics** 

Mathematician

Cryptologic Mathematician

Signals Analysis

Signals Analyst

Signals Conversion Officer

Telemetry Specialist

Conversion Specialist

**Electronic Signals Specialist** 

Communications Signals Specialist

384 APPENDIX

Special Research
Special Research Analyst
Information Science Analyst

Industrial Production
Industrial Production Officer

Logistics

Logistician

Education and Training Officer

Education and Training Officer

# Directors of the National Security Agency

Lieutenant General Ralph Julian Canine, USA November 4, 1952-November 1956 Lieutenant General John Alexander Samford, USAF November 1956-November 1960 Vice Admiral Laurence Hugh Frost, USN November 1960-June 30, 1962 Lieutenant General Gordon Aylesworth Blake, USAF June 30, 1962-June 1, 1965 Lieutenant General Marshall Sylvester Carter, USA June 1, 1965-August 1, 1969 Vice Admiral Noel Gayler, USN August 1, 1969-August 24, 1972 Lieutenant General Samuel C. Phillips, USAF August 24, 1972-August 15, 1973 Lieutenant General Lew Allen, Jr., USAF August 15, 1973-July 5, 1977 Vice Admiral Bobby Ray Inman, USN July 5, 1977-March 10, 1981 Lieutenant General Lincoln D. Faurer, USAF March 10, 1981-

# Deputy Directors of the National Security Agency

Rear Admiral Joseph Numa Wenger, USN (Vice Director) November 4, 1952-Fall of 1953 Brigadier General John B. Ackerman, USAF (Vice Director) Fall of 1953-June 1956 Lieutenant General John Alexander Samford, USAF (Vice Director) June 1956-November 1956 Joseph H. Ream
November 1956-October 1957
Dr. Howard Theodore Engstrom
October 1957-August 1958
Dr. Louis William Tordella
August 1958-April 21, 1974
Benson K. Buffham
April 21, 1974-May 1, 1978
Robert E. Drake
May 1, 1978-April 1, 1980
Ann Z. Caracristi
April 1, 1980-

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HMCAH U.S. House of Representatives, Committee on Appropriations,

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NSAN National Security Agency Newsletter

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page

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page

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392

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page

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466.

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# Chapter 4: Penetration

page

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## Chapter 6: Targets

page

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page

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#### Chapter 8: Partners

page

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## ACRONYMS AND ABBREVIATIONS

A-2: Air Force Intelligence

ACOM: Asian Communist; one of the four major operational divisions of

NSA's Production Organization; now known as B Group ADLA: Assistant Director for Legal and Legislative Affairs

ADPL: Assistant Director for Policy and Liaison ADPR: Assistant Director for Plans and Resources

ADT: Assistant Director for Training

ADVA: Advanced Soviet; one of the four major operational divisions of NSA's

Production Organization; combined with GENS into A Group

AEC: Atomic Energy Commission

AFESC: Air Force Electronic Security Command

AFSA: Armed Forces Security Agency

AFSAC: Armed Forces Security Agency Council

AFSAC/IRC: Armed Forces Security Agency Council Intelligence Requirements Committee

ALLO: All Others; one of the four major operational divisions of NSA's Production Organization; now known as G Group

ALP: Advanced Language Program

ANCIB: Army-Navy Communications Intelligence Board

ANCICC: Army-Navy Communications Intelligence Coordinating Committee

ARC: Ad Hoc Requirements Committee ARDF: Airborne Radio Direction-Finding ARFCOS: Armed Forces Courier Service

**ASA:** Army Security Agency

ASPAB: Armed Services Patent Advisory Board

AT&T: American Telephone and Telegraph Company

**AUTODIN:** Automatic Digital Network

**BI:** Background Investigation

BNDD: Bureau of Narcotics and Dangerous Drugs

BRUSA: British-United States Agreement

C<sup>3</sup>I: Communications, Command, Control and Intelligence CBNRC: Communications Branch, National Research Council

CBS: Columbia Broadcasting System

**CCCC**: Centralized COMINT Communications Center

**CCINC:** Cabinet Committee on International Narcotics Control

CCP: Consolidated Cryptologic Program (CCP)

**CCPC:** Critical Collection Problems Committee of the United States Intelligence Board

CDAA: Circularly Disposed Antenna Array

CIA: Central Intelligence Agency

CINCPAC: Commander-in-Chief, Pacific

COMINT: Communications Intelligence; the interception and processing of foreign communications passed by radio, wire, or other electromagnetic means, and by the processing of foreign encrypted communications, however transmitted. Interception comprises search, intercept, operator identification, signal analysis, traffic analysis, cryptanalysis, decryption, study of plain text, the fusion of these processes, and the reporting of results. Excluded from this definition are the interception and processing of unencrypted written communications, press and propaganda broadcasts. (From National Security Council Intelligence Directive [NSCID] No. 6)

COMIREX: Committee on Imagery Requirements and Exploitation

**COMOR:** Committee on Overhead Reconnaissance **COMSAT:** Communications Satellite Corporation

COMSEC: Communications Security; the protection resulting from any measure taken to deny unauthorized persons information derived from the national security-related telecommunications of the United States, or from any measure taken to ensure the authenticity of such telecommunications (From Senate Bill S.2525, National Intelligence Reorganization and Reform Act of 1978)

CONSIDO: Consolidated Special Information Dissemination Office

COS: Chief of Station

CRITIC: Critical Intelligence message

**CRITICOM:** Critical Intelligence Communications network

CSS: Central Security Service

**DCI:** Director of Central Intelligence **DDA:** Deputy Director for Administration

DDF: Deputy Director for Field Management and Evaluation

D/DIRNSA: Deputy Director of NSA

**DDO:** Deputy Director for Operations (Office of Signals Intelligence Operations)

**DDPP:** Deputy Director for Plans and Policy

**DDPR:** Deputy Director for Programs and Resources

**DEFSMAC:** Defense Special Missile and Astronautics Center

**DES:** Data Encryption Standard **DIA:** Defense Intelligence Agency

DIN/DSSCS: Digital Network-Defense Special Security Communications Sys-

tem

**DIRNSA:** Director of NSA

**DIS:** Defense Investigative Service

**DONCS:** Director of Operations Narcotics Control Reports

DSP: Defense Support Program DSU: Direct Support Unit

ECOM: Electronic Computer-Originated Mail

ELINT: Electronics Intelligence; the collection (observation and recording) and the processing for subsequent intelligence purposes of information derived from foreign, noncommunications, electromagnetic radiations emanating from other than atomic detonation or radioactive sources (From NSCID No. 6)

ENIAC: Electronic Numerical Integrator Computer

**EPQ:** Embarrassing Personal Question **ERA:** Engineering Research Associates

**EXCOM:** Executive Committee **FANX:** Friendship (Airport) Annex **FBI:** Federal Bureau of Investigation

FCC: Federal Communications Commission FISA: Foreign Intelligence Surveillance Act

G-2: Army Intelligence

GAO: Government Accounting Office

GCCS: Government Code and Cypher School GCHQ: Government Communications Headquarters

GENS: General Soviet; one of the four major operational divisions of NSA's

Production Organization; combined with ADVA into A Group

GG-: Government Grade; because the NSA is exempted from the normal Civil Service regulations, the employee ranking of GG-1 to GG-18 is used instead of the Civil Service GS-1 to GS-18

HFDF: High Frequency Direction Finding

**HUAC:** House Un-American Activities Committee

**HUMINT:** Human Intelligence

IBM: International Business Machines Corporation

ICBM: Intercontinental Ballistic Missile
ICI: Interagency Committee on Intelligence

IDA-CRD: Institute for Defense Analysis-Communications Research Division

IDP: Intercept Deployment Plan

IEC: Intelligence Evaluation Committee

IEEE: Institute of Electrical and Electronic Engineers

IG Staff: Possibly, Intelligence Guidelines Staff

IGCP: Possibly, Intelligence Guidelines for COMINT Priorities

ILC: International Licensed Carriers

INSCOM: U.S. Army Intelligence and Security Command

INTELPOST: International Electronic Post

INTELSAT: International Telecommunications Satellite

IPB: Intercept Priorities Board

ITAR: International Traffic in Arms Regulations

ITT: International Telephone and Telegraph Corporation

JCS: Joint Chiefs of Staff

JOSAF: Joint Operations Support Activity Frankfurt

JRC: Joint Reconnaissance Center JSPC: Joint Sobe Processing Center

KGB: Komitet Gosudarstvennoy Bezopasnosti (Committee for State Security)
(USSR)

LASP: Low-Altitude Surveillance Platform LOB: Raymond E. Linn Operations Building

LPMEDLEY: CIA cryptonym for an operation in support of the NSA

M5: NSA Office of Security

MI-8: Military Intelligence, Section 8 (Codes and Ciphers)

MID: Military Intelligence Division

MIT: Massachusetts Institute of Technology

MPRO: Machine Processing section of NSA's Production Organization

MSTS: Military Sea Transportation Service NARCOG: Narcotics Coordination Group

NASA: National Aeronautics and Space Administration

NATO: North Atlantic Treaty Organization

NBS: National Bureau of Standards NCS: National Cryptographic School NOG: NSA Pacific Operations Group

NORAD: North American Air Defense Command NPIC: National Photographic Interpretation Center

NRL: Naval Research Laboratory NRO: National Reconnaissance Office NSAPAC: National Security Agency, Pacific

NSASAB: National Security Agency Scientific Advisory Board NSCID: National Security Council Intelligence Directive

NSES: National Security Electronic Surveillance

NSG: Naval Security Group NVA: North Vietnamese Army

ONC: Office of Narcotics Coordinator ONI: Office of Naval Intelligence

ONNI: Office of National Narcotics Intelligence

**OP-20-G:** Section G (Communications Security) of the 20th Division (Office of Naval Communications) of the Office of Chief of Naval Operations (OP)

**OSS:** Office of Strategic Services

PFIAB: President's Foreign Intelligence Advisory Board

**PLO:** Palestine Liberation Organization

PO4: Fourth staff office within PROD/DDO: Office of Operational Policy and Plans

PO<sub>5</sub>: Fifth staff office within the NSA Production Organization (now Office of SIGINT Operations); Consumer Staff Liaison Office

POT: Professional Qualification Test

PROD: Office of Production

R and D: Office of Research and Development R and E: Office of Research and Engineering

RADE: Research and Development Division within NSA's Office of Research and Development (now Office of Research and Engineering)

**RADINT:** Radar Intelligence

**RCA**: Radio Corporation of America

**RCV**: Receive Only Station

**REMP:** Research, Engineering, Mathematics, and Physics Division within NSA's Office of Research and Development (now Office of Research and Engineering)

**ROK:** Republic of Korea

SAB: Support Activities Building

SALT: Strategic Arms Limitation Treaty

SAMSO: U.S. Air Force Space and Missile Systems Organization

**SBI:** Special Background Investigation **SCA:** Service Cryptologic Agency

SCAMP: Summer Campus, Advanced Mathematics Program

SDS: Students for a Democratic Society

SIGINT: Signals Intelligence; comprises communications intelligence (COMINT), electronics intelligence (ELINT), foreign instrumentation signals intelligence (technical and intelligence information derived from the collection and processing of foreign telemetry, beaconry, and associated signals), and information derived from the collection and processing of nonimagery infrared and coherent light signals (From Senate Bill S.2525, National Intelligence Reorganization and Reform Act of 1978)

SIGLEX: Special Interest Group on Lexicography SIGTRAN: Special Interest Group on Translation SIGVOICE: Special Interest Group on Voice SIPG: Special Intercept Priorities Group

SIS: Signal Intelligence Service

SLBM: Submarine Launched Ballistic Missile SPINTCOM: Special Intelligence Communications

SSA: Signal Security Agency

STANCIB: State-Army-Navy Communications Intelligence Board

STED: Standard Technical Equipment Development Division within NSA's Office of Research and Development (now Office of Research and Engineering)

SUKLO: Senior United Kingdom Liaison Officer SUSLO: Senior United States Liaison Officer

T/A: Traffic Analysis

TAT: Transatlantic Telephone Cable TELINT: Telemetry Intelligence TEXTA: Technical Extracts of Traffic

TRESSCOMM: Technical Research Ship Special Communications

UAR: United Arab Republic (now Egypt)

**UBG:** Underground Building

UKUSA: United Kingdom-United States Agreement USAFSS: United States Air Force Security Service

USCIB: United States Communications Intelligence Board

USCIB/IC: United States Communications Intelligence Board Intelligence

Committee

USFISC: United States Foreign Intelligence Surveillance Court

VHF: Very High Frequency

Air Force — Cont. Abner computer, 99-100 Abrams, Creighton W., 186 crecy order, 355 Abzug, Bella, 302-5 Abzug Subcommittee. See Government (AFESC), 157 Information Subcommittee academic community: relations with NSA, 338-44, 347-50, 357-60; assists intelli-Albright, O. S., 18 gence community through IDA-CRD, 341-44; debate within, over Lucifer, 347-49; cryptologic research of, 349-50, 352-54, 359; Inman calls for dialogue between NSA and, 359-60; provides defenses to technotyranny, 379 Acheson, Dean G., 52, 55 Ackerman, John B., 86 acquisition of intelligence, defined, 372-Act for the Preservation of Government Records (Public Law 37), 25-26 Ad Hoc Requirements Committee (ARC), hearing, 303-5 Adleman, Leonard, 350, 361-62 Administration, Office of, 104-9 Admiralty, British, 330 Advanced Language Program (ALP), 344 Advanced Soviet (ADVA; operational divi-America, 224-25 sion of PROD), go Aerojet Electrosystems, 193 Aetna Insurance Company, 376-77n 22, 282 Africa 212, 214, 320 airborne radio direction-finding platforms 212 (ARDF), 185-86 air defense radar, Soviet, 180 Air Force: COMINT activities of, 45, 47, 51; and the EC-130 incident, 180-81; forms NRO with CIA, 187-88, 204; German intercept stations of, 161; launches Samos satellites, 188; participates in AFSA, 47, 48, 50, 51; repre-Agency sented on intelligence boards, 47-51, Analog, 356

187-88, 204; supports the Nicolai se-Air Force Electronic Security Command Air Force Intelligence (A-2), 49-51 Albert, A. Adrian, 342 Aldridge, Edward C., 192 Alexander, C. H. O'D., 130 Alice Springs, 204-6 All-American Cable Company, 12 Allen, Lew, Jr., 192-93, 250n, 293, 353; becomes director of NSA, 79-80, 291; briefed on NSA's procurement policy, 110-12; and Operation Shamrock, 236, 303; testifies before Pike Committee, 207-08; and Senate Intelligence Committee hearings, 299-302; and the Government Information Subcommittee All Others (ALLO; operational division of PROD), 90, 153-54, 320 Alvarez, Luis, 340 n "A" machine (later Red), 34 American Banking Association, 349 The American Black Chamber (Yardley), 17-American Civil Liberties Union (ACLU), American code, 281-82, 284-85 American Council on Education, 359 American embassy, Tehran, 200 American Telephone and Telegraph Company (AT&T), 174, 303, 377 American Thermogen Corporation, 66 Anagram Inn. See National Security

analog optical computing technology, 102 Anderson, Jack, 287-88 The Anderson Papers, 288 Andover (Maine) COMSAT station, 170-Angleton, James, 277, 283 Angooki Taipu A. See "A" Machine Angooki Taipu B (later Purple), 34-55 anonymity, NSA policy of, 1-2, 61, 74, 82, 98, 118-24, 280-308; applied to employees, 123-24; spared by House Un-American Activities Committee, 282; and Watergate, 200; and the Weathermen trial, 290-91, 294; reduced by Carter, 294, 308, 326; see also national security Appell, Donald, 146 Aquacade (satellite), 202-4 area surveillance, 188 Argus (satellite), 198–200, 202 Arlington Hall, 41, 57-58, 157, 239, 315; see also Signal Intelligence Service; Signal Security Agency; United States Army Intelligence and Security Command Armament Conference. See Washington Naval Conference Armbrister, Trevor, 232 Armed Forces Communications Electronics Association, 359 Armed Forces Courier Service (ARF-COS), 65 Armed Forces Security Agency (AFSA; later NSA), 47-55; secrecy of creation of, 48; interservice control of, 47-49, 52-53; and the USCIB, 48-50, 52, 54-55; and the Korean War, 49-52; represented on AFSAC/IRC, 50; inherits Operation Shamrock from ASA, 244; see also Army Security Agency Armed Forces Security Agency, Director of, 53-54 Armed Forces Security Agency Council (AFSAC), 48-50, 52-55; see also Armed Forces Security Agency Armed Services Committee, 320 Armed Services Patent Advisory Board (ASPAB), 355 Armstrong, W. Park, 52

Army, Department of: rivalry with Navy

in intelligence activities, 35-36, 44-45; favors consolidation of COMINT community, 47; and AFSA, 47-48; handles procurement for NSA, 109-10; as member of ARC, 187; establishes civil disturbance unit, 249; supplied by Hagelin

Army, Department of - Cont. Cryptographic Company, 323; fails to support Nicolai secrecy order, 355

Army Intelligence (G-2): seeks authority for SIS operations, 32-33; control of Special Branch by, 42, 43; gains control of SSA, 43; represented on USCIB, 49; represented on AFSA/IRC, 50; represented on IRC, 50; merges with ASA to form INSCOM, 157; represented at second Joint Allied Conference, 315

Army-Navy Communications Intelligence Board (ANCIB; later STANCIB), 45 Army-Navy Communications Intelligence Coordinating Committee (ANCICC),

Army Security Agency (ASA): and development of Abner computer, 99-100; merges with G-2 to form INSCOM, 157; intercept stations of, 161, 163, 208-9; cooperates with RCA on Operation Shamrock, 239-41; and the NSA watch list program, 262; and Gamma Gupy, 283; opposes relocation of British COMINT unit at Okinawa, 418-19; see also Armed Forces Security Agency; Signal Security Agency; United States Army Intelligence and Security Com-

Asian Communist (ACOM; operational division of PROD), go

Aspin, Les, 296-97

Assault on the Liberty (Ennes), 226-27

Aswan Dam, 319

AT&T. See American Telephone and Telegraph Company

Atkinson, Richard C., 361-62 Atlas-Centaur booster, 203

Atlas computer, 99

Atomic Energy Commission (AEC), 100

Atsugi Air Base, 184-85

Attorney General: as member of COM-SEC Committee, 94; pressed by communications companies for opinion on Operation Shamrock, 237-38, 241-42; as member of CCINC, 259; responsibilities under the FISA, 369, 371; power to authorize black-bag jobs under Reagan executive order, 374-75

Australia: NSA liaison program with, 129; secret agreement with U.S. for construction of Pine Gap station, 205-6; nonsatellite interception of Soviet communications, 207; at second Joint Allied Conference, 315; party to UKUSA, 309. 317

automatic digital network (AUTODIN), Auxiliary Cargo Light (AKL) steamers, Auxiliary General Environment Research (AGER) ships, 231, 233 Auxiliary General Technical Research (AGTR) ships, 215 Ayers, William, 289

background investigation (BI), 107 Bainbridge Island, 36-37 Baker, William O., 171, 339, 340-42 Baker Committee, 340-42 ballistic missiles, 193-94, 197, 207 Bancroft, Harding, 286 Banner, Roy R., 113, 256, 297, 299, 301 Banner, U.S.S., 231-33 Barns, Bruce, 361 Barsby, W. H., 239 baseline concept of international law, Bates, Robert, 106 Battery Cove (Virginia) intercept station, 31-32, 158 Baum, Werner A., 357, 359 beachheads, 51-52 Becker, Eugene J., 117 Behn, Sosthenes, 242 Behshahr listening post, 200 Bell Laboratories, 98, 349 Belmont, 216-17 Beneath the City Streets (Laurie), 332 Bennett, Donald V., 267-71 Berrigan, Philip F., 122 Betts, L.F.H., 12 Bickel, Alexander M., 285-86 Bienvenu, Leonard P., 125-26 Big Bird (satellite), 201-2, 207-8, 210 Big Ear (antenna), 167-70 Bigot List, 268 Bishop, Robert P., 232 Bissell, Clayton, 44 Bissell, Richard M., 187 black-bag techniques: and the wiretap law, 176-77; Hoover prohibits, 264; NSA's desire not to involve President in, 265; taken up by the ICI, 269-70; Huston recommendations on, 273-74; IEC perceived as ineffective in reinstituting. 278; and the Foreign Intelligence Surveillance Court, 370-71; monitored by the Attorney General under Reagan executive order, 374-75

Blackbird (aircraft), 186

Black Chamber (formerly MI-8), 8-17, 105, 281; secrecy of, 8-9, 14, 280; fronted by the Code Compilation Company, 9, 349; Washington Naval Conference, 10-11; and the Radio Communication Act (1912), 11; and the American cable industry, 11-14; decline of, 11, 15-16, 158; closing of, 16-17, 26-27; Carleton instructs MI to supply with whatever it needs, 330-31 Black Panthers, 273 Black Power organizations, 249 "black" space race, 187 Blake, Gordon A., 70, 72, 127, 327 Bletchley. See Government Code and Cypher School Blouin, Francis J., 285 Boak, David G., 351 Bobbs-Merrill Company, 18, 20 Bode, Hendrik W., 340 n Boeder, Arthur E., 155 Bonanni, Louis J., 82, 109, 112 Bonsall, Arthur W., 325 Boone, James V., 97 boosters, 203 Boris project, 323-24 Bradley, Omar, 48, 59 Braeuninger, Albert D., 211 Brandeis, Louis D., 379 Brandin, David H., 359-360 n Branstad, Dennis, 348 Bratton, Rufus, 37-39 Brett, George P., Jr., 22-25 Brewster (Washington) COMSAT earth station, 172 Brezhnev, Leonid, 283, 287 British-American cooperation, 309-24; see also Government Communications Headquarters-National Security Agency relations British codes, 320 British COMINT operations, 313 British COMSEC, 35 British Joint Services Mission (later SUKLO), 317 British-United States Agreement (BRU-SA), 314-19, 331; see also British-American cooperation; United Kingdom-United States Agreement Bronze Goddess, 311 Brotherhood, Francis M., 37 Brown, Harold, 3, 231 Brownell, George A., 52

Brownell Committee, 52-55 Bryan, Albert V., 370 n Buchanan, Pat, 265-66

Buck, R. Creighton, 359-60 n Buckley Air National Guard Base, 211-12 Bude (England) earth station, 333 Budenbach, Mary, 251 Buffham Benson K.: as Deputy DIRNSA, 88, 169, 294, 300-301; heads up NSA support for ICI, 267-70; as deputy assistant director for PROD, 267-70; 274-75, 277-78; and the Huston Plan, 274-75; represents NSA on IEC, 277-78; before Senate hearings on NSA, 300-301; as SUSLO, 326-27 Bullseye, 162, 163, 185 Bundy, McGeorge, 121, 297 Bureau of Narcotics and Dangerous Drugs (BNDD), 254-60; member of White House Task Force on Heroin Suppression, 255; receives intelligence reports from ONC, 255; monitoring of public telephones by, 255-56; receives intelligence from CIA, 255, 260, 269; works with NSA on domestic intelligence, 256-59, 277, 291; watch lists, 256-57, 259, 300; drug-targeting program of, 291, 293 Bureau of Standards, 348, 349 Burger, Warren E., 370 Burke, Gerard P., 113 Burrough, John, 335-36 Bush, George, 250 n Buzhardt, J. Fred, 284, 286 Bye, George T., 18, 23-25 Byeman. See Defense Support Program

Cabell, Charles P., 72 Cabinet Committee on International Narcotics Control (CCINC), 259-60 cables. See commercial cables Cairns, Stewart S., 339 Calhoun, George W., 306 Callimahos, Lambros D., 115-16 Campbell, Duncan, 332 Camp Peary, 73-74 Canada, 129, 315, 317 Canadian Examination Unit, 315 Canine, Ralph; as director of AFSA, 59, 67-69; as DIRNSA, 67-69, 90, 100, 109, 113, 132, 318, 321, 341; acquisition of computer equipment for NSA by, 100, 109, 341; does away with Office of General Counsel, 113; and the Petersen affair, 132; and control of radio circuits under BRUSA, 318 capsule ejecting satellites, 188, 201-2 Caracristi, Ann Z., 88, 91 Carillon (computer), 101

Carlton, Newcomb, 12-13, 329-31 Carroll, Joseph F., 190 Carter, Jimmy, 122n, 186, 192, 228n, 367, Carter, Marshall S., 95-98, 112, 114, 190, 248-49, 261, 264-65, 377-78; opens new Operations Building, 60, 63-64; relations with McNamara, 71-73; becomes DIRNSA, 72-73; as deputy DCI, 71, 121, 128-29, 204; and the NSA budget, 78; attempts to halt publication of The Codebreakers, 128-29; and budget for NRO launches, 203-4; and choice of SUSLO, 325-26; relationship with Sir Leonard Hooper, 333-36 Casey, William J., 84-85 Casino satellite terminal, 207-8 CB radio, 356 censorship, 11, 23, 25-26, 236, 246 Censorship, British, 329-31 Censorship, Office of, 246 Central Bureau (Australia), 315 Central Intelligence, Director of (DCI), 2-3, 45-46, 55, 189, 258-59, 371 Central Intelligence Agency (CIA), 4, 49-51, 74, 91, 121-24, 215, 228, 233, 277, 283, 324, 334; decreased role of, 2-9; size of staff, 3, 77-78; awards Distinguished Intelligence Medal to Louis Tordella, 87-88; attempts to suppress The Codebreakers, 127-28; and the NRO, 187-89, 196, 204; and satellite intelligence, 187-93, 208, 356n; and photo processing, 189–90, 208; and Operation Shamrock, 245-46; domestic intelligence activities of, 245-46, 249-50, 269, 295-96, 300, 374-75; electronic surveillance activities of, 255-56, 273, 279, 290, 307; collects narcotics intelligence, 255-56, 259-63, 300, 373; investigated by Rockefeller Commission, 295-96; domestic watch lists and, 249-50, 300-301 Central Intelligence Group, 45 Centralized COMINT Communications Centers (CCCCs), 318 Central Security Service (CSS), 155-57 C-5A, 202-3 C Group (formerly MPRO; later Office of Telecommunications and Computer Services), 91, 102 Chambers, D. L., 20 Chambre Noire, 7 Chaos, Operation, 295-96 charge-transfer devices, 102

Chesapeake and Potomac Telephone Company, 303 Church, Frank, 4, 232, 298-301, 379 Church Committee. See Senate Intelligence Committee Churchill, Marlborough, 8-9, 12, 331 Churchill, Winston, 309-11 CIA. See Central Intelligence Agency The CIA and the Cult of Intelligence (Marchetti and Marks), 2 cipher key, 345-46 circularly disposed antenna array (CDAA), 161-62; see also Wullenweber antenna system, 161-62 Civair, 164 civil disturbances, 248-54, 265-79, 373; see also Minaret Civiletti, Benjamin R., 306-7 Clark, Harry L., 31 Clark, Ramsey, 251 Clark, Ronald, 323, 324 Clark, S.R.I., 315 Clark, Tom C., 242, 244 Clarke, Carter W., 41-43, 315 classified waste, disposal of, 65-66 Clearing the Air (Schorr), 2 Clickbeetle, Operation, 231-33 Clifford, Clark M., 252 Clowry. See Robert C. Clowry Coast Guard, 36, 45 "Cocaine Trafficking Network in Colombia," 255 Code and Cipher Solution Subsection, 7 The Codebreakers (Kahn), 126, 130, 282 codebreaking. See cryptanalysis Code Compilation Company, 9, 16, 349 Code Compilation Subsection (MI-8), 7 Code-467 satellite. See Big Bird Code-1010 satellite. See Keyhole code words, 11911, 253, 314 Colby, William, 88, 199, 296-97 Cold War, 138, 179, 240, 340 Collection Division (later W Group), 90 Colson, Charles, 288 Columbia University, 343 Combat Cougar, 185-86 command, control, communications, and intelligence (C3I), 94 Commander-in-Chief. **Pacific** (CINC-PAC), 79, 165–66, 234 Commerce, Secretary of, 94 Commercial cable companies: called before the Government Information Subcommittee, 302-3, 305-6; charged with

violating Communications Act (1984),

Commercial cable companies - Cont. 307; and the Official Secrets Act (1941), commercial cables: NSA monitoring of, 173-74, 209-10, 244-47, 302-8, 373; interception of, after wartime censorship, 236-37; SSA monitoring of, 237-30; access of FBI to, 246-47, 302; monitoring of, by British government, 329-Commission on CIA Activities Within the United States. See Rockefeller Commis-Committee on Imagery Requirements and Exploitation (COMIREX), 189-90 Committee on Overhead Reconnaissance (COMOR), 187-90 Communications Act (1934), 31, 33, 47, 242-43, 263, 307-8 Communications Center (COMM Center), 103 Communications Electronic Security Agency, 135 Communications Intelligence (COM-INT): importance of in World War II, 35-36, 39-45, 58; disorganization of, 36, 30; evaluation of, 40; compromise policy on, 44-45; importance of in modern era, 44-46, 58; definition of, 46-47; interservice control of, 49-55; civilian control of, 55; on international drug traffic, 256-57, 260; proposal to relax restrictions on, 260-70 Communications Intelligence community: of, 45-46; disarray of, 47, 52-53 Communications Intelligence consumers, Communications Intelligence personnel, exchange of, 317

NSCID No. 9 as charter for, 45-47; size

Intelligence statute, Communications 130, 139, 169, 281, 300 Communications Intelligence targets, 49-

Communications Research Division

(CRD), 102, 341-44; see also Institute for Defense Analysis Communications Satellite Act, 333

Communications Satellite Corporation (COMSAT), 170–74, 333, 376–77n

Communications Security (COMSEC): fear of attack on, 57; and NSA budget, 77; computer capabilities of, 87; allowed by loophole in wiretap legislation, 256; see also national security

Communications Security (COMSEC) Committee, 94-95 Communications Security Organization, 64, 93-96, 110, 346 communications signals analysis, 92 Communications Subsection (MI-8), 7 computer-assisted voice translation, 93, 365, 378 computers, 87, 97-102, 109, 281, 338, 341, 344-49, 352 Computer Techniques Division, 97 COMSTAR earth stations, 174 COMSTAR satellites, 174, 377 Congress, U.S., 86, 139, 282, 295, 298, 300, 306, 340, 360, 379 Connelly, John J., Jr., 326 Consolidated Cryptologic Program (CCP), 77-79, 119 Consolidated Special Information Dissemination Office (CONSIDO), 53 Consumer Liaison Office, 168-60 Cooper, Viola I., 22 Coral Sea, Battle of, 43 Corderman, W. Preston, 31, 43, 163-64, 237-39, 315 Corry, Cecil C., 325-26, 351-52 Coyne, J. Patrick, 75 The Craft of Intelligence (Dulles), 320 Craig, Joe, 302-4 Cray, Seymour, 101-2 Cray-1 computer 77, 101-2 Cray Research, 101 Critical Collection Problems Committee (CCPC), 261-62 Critical Intelligence Communications network (CRITICOM), 104, 180 critical intelligence message (CRITIC), 104 Cronk, E. M., 205 cryptanalysis: defined, 29; cost of, 263-64, 348; romance of, 281; and the Pentagon Papers, 284-85; and the Watergate burglary, 289; mechanization of, 338 Cryptanalytical and Translation Section, 375 Cryptanalytic Division, 92 Crypto A.G., 321-23 cryptographic devices, 353, 362, 379 Cryptographic Equipment Division (formerly STED), 97 Cryptographic School (formerly Signal Intelligence School), 41 cryptography: during World War II, 6-7; defined, 29; NSA monopoly over, 81; obtaining material for, 273; and trans-

cryptography — Cont.
mission security, 356; mechanization of, 338; see also public cryptography
crypto-linguists, 93
Cryptologia, 350 n
cryptology: defined, 29; as a full-fledged
science, 338-39; academic research on, 349-63
Cuba, 215, 248
Cuban missile crisis, 215
Currier, Prescott, 312, 317
Cyprus invasion, 160

The Dark Invader (von Rintelen), 22-23 data encryption device, 346-49, 357 Data Encryption Standard (DES), 347 Daugherty, Frederick A., 370 n Davida, George I., 357-61 Davis, Henry J., Jr., 90 Davis, Richard H., 181 Dayan, Moshe, 228-29 Dean, John W., 276-77 Deavours, Cipher A., 350 n Dedad, Robert A., 108 defections to Moscow, 69-70, 81-82, 91, 125, 133-49 Defense, Assistant Secretary of, 94, 189 Defense, Department of: and the defection of Martin and Mitchell, 149; and space intelligence, 190, 203; and NSA acquisition of sea-based platforms, 213; represented on White House Task Force on Heroin Suppression, 255; and illegal domestic surveillance, 290, 303; investigates value of SIGINT, 334 Defense, Secretary of: powers of, 2-3; as executive agent of government for COMINT, 54; member of COMSEC committee, 94; NRO director reports to, 188; primary authority for overhead reconnaissance systems, 189; member of CCINC, 259; reviews requirement covered by FISA, 369; role in surveillance authority prior to FISA, 371 Defense Intelligence Agency (DIA): sends SIGINT requests to PO5, 91; joins DEFSMAC, 190; recommends approval of Argus program, 199; and the Pueblo, 294; watch lists of, 250, 300; and narcot-

250, 266
Defense Investigative Service (DIS), 107
Defense Special Missile and Astronautics Center (DEFSMAC), 190-1, 202, 207

ics enforcement, 260; civil disturbances,

Defense Support Program (DSP) satellites, 193-95, 210; Code 467 satellite (see Big Bird); Code 949 satellite, 193-94; Code 647 satellite, 194, 206-7, 211; Rhyolite satellite, 195-98 Deighton, Lee C., 127-29 DeLoach, Cartha, 274 Delta code words, 120 Denholm, Charles J., 77 Dennis, Jefferson R., 90 Denniston, Alastair C., 310-13 See under names of Department of specific departments Deputy Directorate of Operations, 255 Deputy Directorate of Plans, 255 deputy director for Field Management and Evaluation (DDF), 90 deputy director for Operations (DDO), 89–93, 110, 368 deputy director for Plans and Policy (DDPP), 112 deputy director of the National Security Agency (D/DIRNSA), 86 Desktop (code word), 120 DeSoto patrols, 229 Dewey, Thomas, 22-25 Dexter classification of foreign intercepts, 314 Dickson, Paul, 343 Diffie, Whitfield, 347-50 Digital Network-Defense Special Security Communications System (DIN/DSSCS; formerly CRITICOM/SPINTCOM network), 104 Dilworth, Robert P., 339-40 Dinneen, Gerald P., 93 diplomatic community, surveillance of, 175-76, 209-10, 272-75, 327-28 diplomatic establishments, break-ins of, 263–65, 275, 278, 290 Director of Central Intelligence Directives (DCIDs), 45-46 direct support units (DSUs), 186 Discoverer 14 (satellite), 187 Distinguished Civilian Service Award, 97 Division D, 142, 255, 262-63 Dodds, Nugent, 20-23 Dohrn, Bernardine, 289 Domestic Collection Division, 255 domestic intelligence gathering, 247-54; priorities, 189; overlaps with foreign intelligence, 252-53, 258, 364-79; and the drug watch list program, 254-63; and the ICI report, 267-71; and the Huston Plan, 271-76; court scrutiny of, 290-94; and the FISA, 367-74

"Domestic Intelligence Gathering Plan: Analysis and Strategy." See Huston Plan domestic intelligence program, 247-53 domestic targeting: by the NSA, 261-62, 306, 364; by the CIA, 295-96; investigations of, by the Senate Intelligence Committee, 296, 300-302 Dorislaus, Isaac, 327 Downie, John L., 277 draft evasion, 249-50, 254 Drake, Edward M., 315 Drake, Robert E., 88, 90, 166 drop copy program, 246 drug traffic, war against, 254-63, 277, 290, 373 Dulles, Allen, 74, 127, 132, 187, 295n, Dulles, John Foster, 182-83, 319-20 Dumey, Arnold I., 340 Dundee Society, 115-16 Dunlap, Jack E., 149-53 Dyer, Thomas H., 58

Eachus, Joseph J., 340 early warning satellite program, 188, 190-93, 194, 205-8, 210 Eastman Kodak, 98 Eaton, Frederick, 334 eavesdropping, defined, 298 EC-47 aircraft, 185, 186 EC-121 incident, 81, 184-85 EC-130 incident, 138-39, 144, 178-84 Eden, Anthony, 319-20 Edzell (Scotland) intercept station, 161 Egan, Joseph L., 242 Ehrlichman, John, 265-67, 277, 288-89 Eisenhower, Dwight D., 100, 180-83, 241, 320 electronic air war, 178-86 Electronic Computer-Originated Mail (ECOM), 377 electronic numerical integrator computer (ENIAC), 99 electronic signals analysis, 92 electronics intelligence (ELINT): defined, 92; aircraft, 138-39, 179; patrol, 184 electronic surveillance: of NSA employees, 125; and the ICI report, 270; and the Huston Plan, 272-74; of international communications by NSA, 272, 296-97; growth of, under the Nixon administration, 278; dispute over use on foreign embassies, 278; illegality of, 292-93; Levi task force reports on, 306-7; of allies, 320, 323; see also black-bag techniques; diplomatic community, sur-

electronic surveillance — Cont. veillance of; diplomatic establishments, break-ins of electronic surveillance flights. See ferret-Elkridge Landing Road, 66-67 Ellender, Allen, 204 Ellis, Kenneth, 327 Ellsberg, Daniel, 259, 288, 308 El Quseir (Egyptian ship), 225-27 embarrassing personal questions (EPQs), 107 embassies, surveillance of. See diplomatic community, surveillance of; diplomatic establishments, break-ins of encryption and public-key cryptography, Engineering Research Associates (ERA), Engstrom, Howard T., 86-87, 323-24, 340 Enigma cipher machine, 310-14 Ennes, James T., 226-27 Ervin, Sam, 290 espionage statutes, 21, 25, 103 Estes, Howard M., 113, 169 Etam (West Virginia) COMSAT facility, 170-72, 257 Evans, Geoffrey, 128 Evron, Ephraim, 228n Ewing, Alfred, 310 Exceptional Civilian Service Award, 94n, Executive Committee (EXCOM), 189, 199 Executive Order No. 9031, 236 Executive Order No. 12036, 3 executive privilege, 303-5 Executive Protection Force, 273 Exmouth Gulf, 207 External Collection Program (Ms), 126

Fabyan, "Colonel" George, 28–29
Facilities and Planning Staff, 66–67
Facility Control Center, 67
The Falcon and the Snowman (Lindsay), 356n
Farm, The. See Camp Peary
Fat Man. See Nagasaki
Faurer, Lincoln D., 85–86, 363–64
Federal Bureau of Investigation (FBI): authority of, over clandestine traffic, 36; as COMINT consumer, 45, 51, 291–92, 366; represented on USCIB, 49; and commercial cable companies, 246–47, 302; secret payments of, 247; watch lists of, 248, 250, 289–93, 300; investigates civil disturbances, 250, 269, 389–91;

Federal Bureau of Investigation — Cont. conducts break-ins of embassies, 264-65, 278; black-bag jobs by, 264-65, 269-70, 273-79; under the Huston Plan, 274-75; and the IEC, 277-78; and the Pentagon Papers, 282-83; investigation of the Weathermen by, 289-91; Government Information Committee subpoenas agents of, 303-4; and Levi task force, 307; covered by the FISA, 368; approaches NSA for cryptanalysis work, 374-76; see also domestic intelligence gathering Federal Communications Commission (FCC), 36, 45, 171-72, 238 Federal Protective Service, 124 Fedora (Russian agent), 282-89 Feeney, Mr., 244-45, 304 Feistel, Horst, 344-45 Fellwock, Perry, 262 ferret aircraft, 195 ferreting, 178-84 ferret satellites: launch of, from photo satellites, 188, 196; and DEFSMAC, 191; capabilities of, 195-96, 198; history of, 195-204; transmission of data to earth stations by, 207, 211 fifth staff office (PO,), 91, 250-51 Finch, Robert H., 267 First Lords of the Treasury and Admiralty, 328 Fletcher, Bruce W., 116n Floyd, Richard P., 110-112 Ford, Gerald R., 295, 300-305 Ford, Stanley H., 18 Ford administration, 174-75 foreign communications, 46-47 foreign intelligence, overlap of with domestic intelligence, 252-53, 258, 364-Foreign Intelligence Surveillance Act (FISA), 367-73, 378 Foreign Intelligence Surveillance Court, 370-71, 378 Foreign Office, 317, 335 Foreign Secretary, 327-28 Forrestal, James V., 47, 242-44 Fort Knox, 58-59 Fort Meade: size of, 56-57, 60; description of, 60-64, 67, 119; analyzes signals received at intercept stations, 167, 209-10; monitors diplomatic communications between Washington and New York, 176 Fort Monmouth intercept facility, 32 Fourth Amendment, 378-79

Fourth staff office (PO<sub>4</sub>), 92
France, 319–20
Frankel, Max, 121
Freedom of Infomation Act, 122, 281
Friedman, William F., 27–35; head of
Code and Cipher Section, 27, 29; employed at Riverbank, 28–29; head of
Signal Intelligence Service, 29–35; establishes Signal Intelligence School, 31; receives National Security Medal, 295; negotiates cooperation with GCHQ, 311–13, 315–17, 321–22; and the Boris project, 323–24
Friendship Annex (FANX), 67, 106, 108,

Friendship Annex (FANX), 67, 106, 108 114, 175-77 Frost, Laurence H., 69-70, 73, 339 Fubini, Eugene C., 73, 230-31, 334

Gamma code classification series, 120, 253

Gamma Gupy, 120, 253, 283, 287-88 Garwin, Richard L., 340 n

Gayler, Noel, 76-79; and watch list program, 256, 261-62, 275; and ICI, 267-68, 269, 270, 271, 274; and the blackbag issue, 267, 269, 278-79; and the Huston Plan, 274-75; opposed by Hoover on domestic intelligence, 276-79; and the Pentagon Papers trial, 284, 286

General Counsel, Office of, 113-14, 368-69

General Electric, 100

General Soviet (GENS; operational division of PROD), 90

Gengler, Raymond J., 268 George, Harry, 178

Consister W. L. C.

Georgetown, U.S.S., 215-16

George Washington, U.S.S., 213

Geosynchronous satellites, 103, 191, 193, 197-98

Germany, 42, 160-61, 246

G Group: personnel of, 9, 91; handles data from Third World, 91, 212, 251; connection to Sugar Grove, 170; and the Six Day War, 217-20; and watch list program, 253, 257; activities of, reviewed by Senate Intelligence Committee, 298-99; see also All Others

Gibbs, George S., 27 Gleason, Andrew M., 55n, 340 n Goheen, Robert F., 341 Goldhammer, John, 329 Goldwater, Barry M., 300 Good, I. J., 130 Goonhilly Downs (England) earth station, 332-33

Government Accounting Office (GAO), 65

Government Code and Cypher School (GCCS; later GCHQ), 311, 313

Government Communications Headquarters (GCHQ): and the Travis Trophy, 70–71; personnel of, at NSA stations, 123, 211, 331–32; relationship of, with NSA, 128–30, 317–18, 325–26, 331, 334–35; activities of, 313, 317; and BRUSA, 314–18, 325–27, 331; represented at second Joint Allied Conference, 315; history of, 327; interception activities of, 331, 333; and the London Communications Security Agency, effect on, 335; excluded from coverage of the FISA, 372–73

Government Communications Headquarters-National Security Agency relations, 102, 129, 316-18, 321, 335-36; exposed in *The Codebreakers*, 128-30; revealed by Mitchell and Martin, 144; and the Boris project, 323-24; effect of Six

Day War on, 321-22

Government Information Subcommittee, 302-6

Graham, Daniel, 200-201

Graham, James, 328

Great Britain: monopoly of, over world cable systems, 13; and surveillance of Japan by, 42, 44; party to UKUSA, 309, 315-17; party to BRUSA, 314-15, 317-18; denied right to relocate listening post to Okinawa, 318-19; and the Suez crisis, 319-20; interception of the mails by, 327-28; cable interception by, 329-31; telephone interception by, 329-32; satellite interception by, 332-33

Great Depression, 17
Green Hill (Rhode Island) transit st

Green Hill (Rhode Island) transit station, 174 Greenish, Thomas S., 305 ground communications, Soviet, 180

ground stations, 180, 204, 210 GTE Satellite Corporation, 376-77n Gurfein, Murray, 285-86 Guy, Ralph B., 293-94 Gwertzman, Bernard, 228n

Hagelin, Boris C. W., 322-24 Hagelin Cryptograph, 131-2 Hagelin Cryptographic Company, 323 Haig, Elizabeth R., 110-11 Haldeman, H. R., 266-67, 271-77

Hall, Albert, 296, 303 Halltown Paperboard Company, 65 Hamel, William, 82 Hamilton, Victor N., 153-54 Handelman, George, 359-60 n Handy, Thomas, 43 Harlfinger, Frederic J., 230 Harrogate, England, 208 Hart, George L., 369-71 Harvest computer, 87, 100-101 Hasluck, Paul, 205 Hausman, Arthur H., 97 Hawkins, Howard R., 305 Hays, Wayne L., 130 Headquarters-Operations Building. See Fort Meade Hedden, Stuart, 324 Hellman, Martin E.: opposes DES, 347-48; creates public key cryptography, 350; speaks at IEEE symposium, 353; member of Public Cryptography Study Group, 359-60 n; comments on national security, 362-63 Helms, Richard, 2, 128, 189-90, 288; and domestic intelligence activities, 249, 267; and narcotics control, 255, 261-62; and the ICI, 268, 270, 271; and revocation of Huston Plan, 275; reports to Mitchell on black-bag techniques, 278-79 Hermann, Robert J., 78, 191-92 Hersh, Seymour, 295 Hess, Michael, 284 Hesse, A. W., 325 Heyman, Ira M., 359 high-frequency direction-finding net (HFDF), 162, 163, 185 Hiroshima, 43 Holystone, 120 homosexuality, 81-85, 145, 149-50 Hooper, Leonard J., 130, 315, 325, 333-36 Hoover, Herbert, 16 Hoover, J. Edgar: works to obtain FBI access to cable traffic, 246; places Quakers on watch lists, 252; and domestic intelligence gathering, 264-65, 267, 276, 278; and the ICI, 267-69, 270-71; conflicts with Huston, 268, 271-76; refuses to support IEC, 278; and bugging of South Vietnamese embassy, 279; receives National Security Medal, 205n Hornbeck, Stanley K., 20 Houlton (Maine) intercept station, 155, House Appropriations Committee, 199

House Assassinations Committee, 252 House Ethics Committee, 366-67 House Government Operations Subcommittee on Government Information and Individual Rights. See Government Information Subcommittee House Intelligence Committee, 371 House Judiciary Committee, 242 House of Commons, Secret Committee, 328 House of Journalists, 133, 144 House Select Committee on the Intelligence Community. See Pike Committee House Un-American Activities Committee (HUAC), 143-47, 149, 282 Houston, Lawrence, 245-46, 269 Huff Duff. See Bullseye Huffman, David A., 340 n Hughes, Charles Evans, 9-10 Hughes Aircraft, 212 Hull, Cordell, 37-38 Human Intelligence (HUMINT), 377-78 Humphrey, Herbert H., 74, 139 Hunt, E. Howard, 288 Hunters Stones (England) microwave tower, 332 Hurt, John B., 30-31 Huston, Tom: White House staff, internal security affairs, 266-76; instructed to report on foreign Communist support of campus disturbances, 265-76; meets with Nixon on domestic intelligence capabilities, 267, 271-72; and the ICI, 268, 269, 271; conflicts with Hoover, 268, 271-72; promises cover letter to ICI report, 271; forced to recall Huston Plan memorandum, 275; demoted, 276 Huston Plan, 272-77, 290 Ibershof, William C., 290-91 IBM. See International Business Machines

IBM. See International Business Machines Corporation
ICBM. See Intercontinental Ballistic Missile
IGCP (possibly Intelligence Guidelines for COMINT Priorities), 258, 259, 260, 368
IG staff, 258, 259, 260
Imagery Analysis Service, 189
Ince, Eugene S., 103
industrial community, 338–39, 344, 379
infrared warning devices, 207
Ingersoll, John E., 256, 259
Ingles, Harry C., 242
Inman, Bobby Ray: appears before House, Senate, and executive intelligence in-

Inman, Bobby Ray - Cont. vestigation committees, 80; successor to Allen, 80-85, 353; and the Pueblo incident, 81; gives public lectures as DIRNSA, 81, 357-59; fires Floyd, 112; and Silver as general counsel, 114, 374; denies domestic targeting, 306; and the Meyer letter, 354; comments on Invention Secrecy Act (1951), 355, 357; proposes to Public Cryptography Study Group statute permitting NSA to exercise prepublication censorship, 360; and power struggle with NSF, 361-62 Installations and Logistics, Office of, 109-Institute for Defense Analysis (IDA), 102, 342-43 Institute of Electrical and Electronic Engineers, (IEEE), 353-54 intelligence collection techniques, 3, 268intelligence community, 2-3, 188-89, 199-200, 266-67, 379 Intelligence Evaluation Committee (IEC), 276-79, 288-89 Intelligence Policy and Review, Office of, intelligence requirements, 258, 260 Intelligence Requirements Committee (AFŠAC/IRC), 50 intelligence sources, protection of, 169 intelligence unit, 247 Intensive Study Program in General Analysis, 114-15 Interagency Committee on Intelligence (ICI), 267-71, 278; see also Special Reintercept activities, 31-33, 212, 327-28, Intercept Deployment Plan (IDP), 161 Intercept Equipment Division (formerly RADE), 96-97 "Interception of International Telecommunications by the National Security Agency" (Government Information Subcommittee), 305-6 Intercept Priorities Board (IPB), 50-51 Intercontinental Ballistic Missile (ICBM). Internal Revenue Service (IRS), 247 Internal Security Act, 61 International Business Machines Corporation (IBM), 98, 100-101; develops Lucifer, 344-49; member of Satellite Business Systems, 376-77n; competes

for ECOM market, 377

international electronic post (INTEL-POST), 377 International Herald Tribune, 127 International Narcotics Control Conference, 261 International Radio-Telegraph Convention (1912), 11 International Regulations on SIGINT (IR-SIG), 309 International Telecommunications Satellite (INTELSAT), 170, 333 International Telephone and Telegraph (ITT), 237-38, 245, 303 International Traffic in Arms Regulations (ITAR), 353-54 interpretive restraint, 269-70, 272 interservice rivalry, 33, 35, 44-45, 49, 52-53, 165 Invention Secrecy Act (1917), 354-55 Invention Secrecy Act (1951), 355 The Invisible Government (Wise and Ross). 128 Isolation. See Camp Peary Israel: and the Six Day War, 217, 220-27; attacks Syria in the Six Day War, 220, 227; attack on the Liberty, 221-27, 228n; and the Suez crisis, 319-20 ITT. See International Telephone and Telegraph Jackson, Don C., 109, 327 Jacob, Freddy, 317

James, Robert C., 111 Jamesburg (California) earth station, 173 Jamestown, U.S.S., 215-16 Japan: intelligence collected on, in the interwar years, 9, 15, 19; intelligence collected on, during World War II, 34, 35, 37, 42, 44; decision of, not to join Germany in war against USSR, revealed by COMINT, 43; will of, to resist, and COMINT, 44; site of ASA intercept stations, 159; threats posed by, and FBI cable intercepts, 246; third party to UKUSA, 315 Japanese Diplomatic Secrets (Yardley), 19-25, Jimmy T. See Jamestown John Doe, 355-56, 357 Johnson, Louis A., 47-48, 58-59, 244 Johnson, Lyndon B., 248 Joint Allied Conference (second), 315 Joint Army, Navy, Air Force Publication (JANAP), 299, 119 Joint Chiefs of Staff (JCS): relative power

of, in intelligence community, 2; recom-

Joint Chiefs of Staff (JCS) - Cont. mend limiting cryptanalysis to Army, Navy, and FBI, 45; and the AFSA, 47-48, 52-53, 58; replaced as authority for COMINT, 54, 58; concern of for location of NSA, 59; specify method of picking DIRNSA, 68; NSA's fight for independence from, 75-76, 89; bypassed in SIGINT chain of command by NSCID No. 6, 157; and the Pueblo mission, 299, 234; attempt to modify BRUSA, 318; and British relocation to Okinawa, 319 Joint Defense Space Research facility, 206 Joint Operations Support Activity Frankfurt (JOSAF), 166 joint processing centers, 166-67 Joint Reconnaissance Center (JRC), 218, 220-21, 233 Joint Sobe Processing Center (JSPC), 166 Jones, Eric M., 130, 316-17, 321, 322, 325 Josephson Junction technology, 102 Joy, James H., 210-11 Judge Advocate General of Army, 238 Justice, Department of: and the commercial cable companies, 242, 246; ONNI established within, 261; IEC set up under cover of, 277; and the Pentagon Papers, 284; and the Weathermen trial, 290, 294; and the Abzug committee, 303; on the intelligence community, 333; and FISA, 367; and black-bag jobs, 370-71; investigation of, into illegal NSA surveillance, 373

Kabkan (Iran) intercept station, 198, 199-Kahn, David: The Codebreakers, 126-27, 130, 282; and the Pentagon Papers, 285; and DES, 345, 347; labels public key cryptography "revolutionary," 350; founds Cryptologia, 350 n Kameny, Franklin E., 82-84 Kamiseya (Japan) listening post, 134, 164, 166, 185 Kaplan, Wilfred, 359-60 n Karamessines, Thomas, 245 Karamursel, Turkey, 159-60, 164, 165 Kato, Tomosaburo, 10 Keith, Damon J., 290, 291, 293-94 Keith case, 202, 203 Kelley, Clarence M., 291–92, 293, 303 Kellogg, Frank B., 329, 330 Kennedy, Edward M., 367 Kennedy, John F., 333 Kennedy, Robert F., 247

Kent Island (Virginia) Research Facility, Kern, Richard N., 112 Kerr, Philip H. (Lord Lothian), 310 Keuch, Robert L., 307 key (computer), 345-50 Keyhole (satellite), 201-2, 208 KH-11 satellite. See Keyhole Khomeini, Ayatollah Ruhollah, 202 Khrushchev, Nikita, 183 Killian, James R., Jr., 341-42 King, Martin Luther, Jr., 251 Kinney, David B., 132 Kirby, Oliver R., 89 Kirknewton (Scotland) listening post, 200-10 Kissinger, Henry A., 95 Klein, Maurice H., 141, 145-47 Kleindienst, Richard, 265 Klooz, Marie Stuart, 19-20 Knapp, George, 305 Knoche, Henry, 74 Knox, A. Dillwyn, 311 Knox, Frank, 37, 38 Komorov, Vladimir, 165 Konheim, Alan, 346 Korea, 159, 315 Koreagate, 366-67 Korean War, 49-50, 318 Kostiouk, Mikhail N., 181-82 Kosygin, Alexei, 165, 283, 287 Kramer, Alwin D., 37-38 Krogh, Egil, 259-60, 288 Kruh, Louis, 350 Kullback, Solomon, 30, 97, 137, 140, 171, Kunia (Hawaii) facility, 166 KY-28 (crypto gear), 95

Lacey, Frederick B., 370 n Laird, Melvin, 277-78 Lalor, W. G., 59 Land, Tom, 172 Langenberg, Donald, 362 Larkin, John J., 317 laser recording, 102 Lasken, Jesse E., 351 Latham, Donald C., 94 launch vehicle production, 203 Laurie, Peter, 332 Lay, James, 74 Leibler, Richard A., 342-43, 361 Leppert, Charles, 303 Lessiovski, Victor, 282-83 level of completeness, 258, 260 Levenson, Arthur J., 91, 348

Levi, Edward H., 300-301, 303-7 Levi task force, 306-8 Liberty, U.S.S., 216-31: sent to Mediterranean during Six Day War, 217, 218-19, 220; buzzed by Israeli planes, 221; attacked by Israeli forces, 222, 223-24; mistaken for El Quseir, 225-27; aftermath of attack, 227-29 Liberty ships, 215 Liddy, G. Gordon, 288, 289 light-sound interaction devices, 102 Lindsey, Robert, 356n line items, 258 Linn, Raymond E., 170, 170 n Literary Gazette (Moscow), 2 Little Boy, 43 Livesey, Frederick, 9, 16 Lloyd's of London, 344-45 Loadstone (code word), 101, 103 Lockheed, 187, 201, 210, 212 Loehnis, Clive, 71, 130, 316, 325 Logistics Building (SAB 4), 65 London Communications Security Agency, 317, 335 Long, S. Eugene, 111 Lothian, Lord. See Kerr, Philip H. Lovell, Bernard, 169 Lovett, Robert A., 52, 55, 55n low-altitude surveillance platforms (LASPs), 201-2 LPMEDLEY, 245 Lucifer, 344-47 Lugar, Richard, 85

MacArthur, Douglas, 19 McCone, John A., 71, 127, 168, 189, McCormack, Alfred, 40-41, 313, 314 McCormack, John W., 143-44 McDonald, David L., 230 McElroy, Neil H., 166 McFadden, George L., 90 McGarr, Frank J., 370 n McGonagle, William L., 221-25 Machine Processing (MPRO), 90 Mackay, Clarence H., 329 McManis, David Y., 275 McMillan, Dougald D., 306 Macmillan Company, 22-25, 126-27 McNamara, Robert S., 71-72, 128, 147, 189, 224 McNarney, Joseph, 47 Macomber, William, 139 Maddox (U.S. destroyer), 229 Madley (England) earth station, 332-33 magic, 281 magic summary, 42 magnetic bubbles, 102 Magnuson, Warren, 357 Main Site. See Karamursel Management and Budget, Office of (OMB), 352 Manly, John, 8 Marchetti, Victor, 2 March on Pentagon, 249 Marconi-Adcock high-frequency direction finder, 312 Mardian, Robert C., 277, 278 marine band radio, 356 Marine Corps, 118 Mark, Hans, 203 Mark I radiotelescope, 169 Marks, John D., 2 Marsh, John O., Jr., 297, 303 Marshall, George C., 38-39, 44, 310 Martin, William H., 134-48, 282; see also defections to Moscow Maryland Procurement Office, 109-10 Massachusetts Institute of Technology (MIT), 100, 350, 361 Mathematical Research Techniques Divi-A Matter of Accountability (Armbrister), 232 Matthews, Charles W., 111 Matthews, Mitford M., 97 Mauborgne, Joseph O., 29, 32 Mazzini, Joseph, 328 Medalie, George Z., 24 Melvern, Linda, 332 Menshikov, Mikhail A., 181-82 Menwith Hill (England) Station, 208-11, Merino. See Pine Gap Message Center (War Department), 39 Meyer, Carl, 345, 349, 354 Meyer, Joseph A., 353-54, 357 Michener, Earl Cory, 242 microwaves: interception of, 171-72, 174-78, 197, 209, 332; susceptibility of, 174; impact of, on telecommunications, 175, 176, 376-77; Soviet, detected by ferreting, 180; not monitored by ferret satellites, 196; primary source of intelligence for NSA, 377; growth of, and the law, 378 Midas belt, 188 Midas series, 188 Midway, Battle of, 281

Mikoyon, Anastas I., 182 military communications system, 234

Military Intelligence, Section 8 (MI-8), 7-Military Intelligence Division (MID): receives telegrams from Western Union, 12; establishes listening post in China, 14-15; and the Black Chamber, 17-19; transfers cryptanalysis to Signal Corps, Military Intelligence Service, 313 Military Sea Transportation Service (MSTS), 214 Miller, Herbert J., Jr., 247 Minaret: charter for, 253-54; legality of, 254, 292; NSA procedures for, 258-59; continued after revocation of Huston Plan, 275; NSA fear of revealing existence of, 282, 291; terminated, 294; Allen testifies about, 300, 302; Justice Department reports on, 306, 373; utilizes British intercepts, 931; see also civil disturbances; watch lists minimization requirements, 368-70 Mitchell, Bernon F., 134-49; see also defections to Moscow Mitchell, John, 274-79 MITRE Corporation, 174-75 Mondale, Walter F., 4, 299, 301 Moody, Juanita M., 91, 250-51, 253, 299, 366-67 Moon relay station. See Big Ear Moore, George, 277 Moore School of Electrical Engineering, 99 Moral Majority, 84 Morgan, Tom, 139 Morrison, John E., 89, 254, 267 Mossad, 226 Muller, U.S.N.S. Sergeant Joseph E., 214multifrequency address codes, 365 multiple eavesdropping, 193 Munitions Control, Office of, 354 Munitions List, U.S., 353, 354 Murphy, Robert, 181-82

Nachman, Richard, 75
Nagasaki, 43
Nagumo, Chuichi, 38
narcotics control, 254-63; see also Bureau of Narcotics and Dangerous Drugs; watch lists
Narcotics Coordination Group (NAR-COG), 255, 260, 263
Nasser, Gamal Abdel, 217, 319
National Agency Check, 107

National Bureau of Standards (NBS), 345, 347

National Cash Register, 98

National Cryptologic School (NCS; formerly Training School), 114-17

National Cryptologic Staff, Office of (later Office of Programs and Resources), 113 National Foreign Intelligence Board, 250 n

National Intelligence Medal of Achievement, 250 n

National Intelligence Tasking Center, 368 National Narcotics Intelligence, Office of (ONNI), 261

National Narcotics Intelligence System, 261

National Photographic Interpretation Center (NPIC), 189

National Recognissance Office (N

National Reconnaissance Office (NRO): secrecy of, 187–88; run by Air Force, 187–88, 189, 192, 204; relations with NSA, 191, 204; organization of, 192; and the Defense Support Program, 193–98; builds Rhyolite, 196; approves Argus, 199; confidence in space shuttle, 203; connection with Buckley, 211

National Reconnaissance Office, Director of, 189

National Research Council, 123

National Science Foundation (NSF): primary source of funding for public cryptology, 350-51, 362; power struggle with NSA, 350-52, 361; charged with denying due process, 357; does not fund Leonard Adleman, 361

national security: as basis for seizing Japanese Diplomatic Secrets, 24; as basis to argue against publication of The Codebreakers, 129; as justification for Shamrock, 239, 242; as rationale for increased electronic surveillance, 272; and the Weathermen trial, 294; and the NSA, 297, 352, 357; as justification for expanding executive privilege doctrine, 303-4; system of, and discretion of agencies, 307; and the Patent Office, 355; and public cryptology, 358, 359, 360, 362-63; and FISA, 369; see also anonymity

National Security Act (1947), 4, 72 National Security Agency (NSA; formerly AFSA): size of, 4, 56, 67, 77-78, 280-81, 305; establishment of, 1-2, 55; fight for military control of, 3, 75-77, 110; technological capabilities of, 4, 176, 244-45, 273, 378, 379; extra-legal sta-

National Security Agency - Cont. tus of, 4, 269, 301-2, 358-59, 378; location of, 56-59; image problems of, 72-73, 74-76, 357-58; budget of, 77-79, 204 (see also Consolidated Cryptologic Program); security measures of, 83-84, 118-154; structure of, 88-117; personnel practices of, 104-9, 211-12; contract awards of, 109, 110-12; consumers, 248, 252-53, 261, 291-93; use of outside talents by, 338-49 National Security Agency, Director of (DIRNSA): power of, 2-3, 157; as chief of CSS, 2, 156; office of the, 62, 79, 86; has ultimate responsibility for NSA/ GCHQ relations, 325; and FISA, 369, 371 National Security Agency, Pacific (NSA-PAC), 165-66 National Security Agency, Vice Director of (later (D/DIRNSA), 86 National Security Agency Installation and Logistics Organization (L Organization), 66 National Security Agency Office of Security (M5), 124, 131-32, 133 National Security Agency Scientific Advisory Board (NSASAB), 339-40 National Security Council (NSC), 45-46, 54, 94, 199, 233 National Security Council Intelligence Directive (NSCID No. 9; later NSCID No. 6), 45-47, 54-55, 307 National Security Council Intelligence Directive No. 6 (NSCID No. 6; formerly NSCID No. 9), 1-2; and authority of DIRNSA, 157; interpretation of, 269, 274; subpoenaed, 296 National Security Electronic Surveillance (NSES), 307-8 National Security Medal, 88, 116, 295 NATO. See North Atlantic Treaty Organization Navair, 164 Naval Intelligence, British, 329 Naval Intelligence, Office of (ONI), 50, 51, 98, 167-68 Naval Research Group, 99 Naval Research Laboratory (NRL), 169 Naval Security Group (NSG): part of CSS, 156; housed on Nebraska Avenue, 157; listening posts of, 159, 160-61, 169, 185; and NSA, 214-15, 262; first to implement domestic targeting, 257 Naval Security Group Activity, 172 Navy, Department of the: rivalry with

Army in intelligence activities, 35-36, 44-45; and COMINT, 44-45, 47; represented on AFSAC, 48; represented on USCIB, 49; intercept stations, 158; and electronic surveillance missions, 184; member of ARC, 187; relations with NSA, 214-15, 229, 232-33; sends Liberty to Sinai, 220; targets only on not-to-interfere basis, 229; spy fleet, 230-31; radio intelligence manual, U.S. delivers, to Britain, 312; supports secrecy order on Nicolai's Phasorphone, 355 Netherlands COMINT, 131 Neue Berliner Illustrierte, 183 Neuwirth, Lee P., 343 New Left, 266, 273 Newsday, 126 Newsletter, 123-24 New Statesman, 332 New York Daily News, 302 New York Times, 121, 282-87, 290, 295 New Zealand, 309, 315 Nicolai, Carl, 354-58 Nimitz, Chester, 43 Nitze, Paul H., 299 Nixon, Richard M.: and the EC-130 incident, 182; orders reconnaissance missions resumed after EC-121 incident, 185; and intelligence on domestic violence, 248, 267; war on dangerous drugs, 248, 254-55, 259, 261; becomes President, 265; creates ICI, 267; and the Huston Plan, 273-74, 275; and the Pentagon Papers, 282-83; battles security leaks, 284, 288 Nolan, D. E., 13-14 nondisclosure policy, 365-66 North American Air Defense Command (NORAD), 190-91 North Atlantic Treaty Organization (NATO), 315, 321, 323 Northeast Recruiting Office, 105 North Korea, 184, 234 "NSA Contribution of Domestic Intelligence," 277-78 nuclear explosions, 188, 194 nuclear weapons testing program, 213 numbers racket, 375 Nunno, Leonard J., 268-69 Nurrungar, Australia, 208

Office of ———. See under names of specific offices
Official Secrets Act (1941), 281, 330
O'Gara, John, 76

Ogonek, 189-84 Ohio State University, 100 O'Kelley, William C., 370 n Okinawa, 318-19 Omnibus Crime Control and Safe Streets Act (1968), 256 O'Neill, Michael I., 160 OO Reports, 255 Operation ——. See under names of specific operations "Operational Restraints on Intelligence Collection," 272-73; see also Huston Operations Narcotics Control Reports, Director of (DONCS), 255 optical logic elements, 102 Ordinance Department, 99 Organized Crime Section, 247 Oshima, Hiroshi, 44 overhead platforms, 178-212 overhead reconnaissance aircraft, 186 Oxford, U.S.S., 215-216

Paine, Lauren, 194-95 Painter, Lloyd, 224 Palm Beach, 233 Palmer, Bruce, 77 Panama intercept station, 32 Parker, Reginald H., 71, 327 Parlow, Howard, 97 Parrish, Frank, 23-24 Pasta, John R., 352 Patent and Trademark Office, 354, 355 peace groups, 249 Peacetime COMINT Radio Intercept Requirements, 161 peacetime interceptions, ban on, 158 Pearl (code word), 314 Pearl Harbor, 96-99 Pendergrass, James T., 99 penetration report (PENREP), 104 Pentagon. See Defense, Department of Pentagon Papers: and Gamma Gupy, 282-83; tip off foreign governments that their codes were broken, 283-84, 286-87; and the courts, 284-86; Nixon's defeat in the courts, 288; and NSA anonymity, 289, 294, 308 Petersen, Henry, 291-93 Petersen, Joseph S., Jr., 130-33 Pfanstiehl, Alfred, 356 P<sub>4</sub>M incident, 184 Phasorphone, 354-56 Philco, 100 Phillips, Samuel C., 79

Photographic Intelligence Center (later National Photographic Intelligence Center), 189 photo interpretation, 378 . Pierce, John R., 340 n Pierce, Lawrence W., 370 n Pike, Otis, 296 Pike Committee, 296-98 Pincher, Chapman, 309 Pine Gap (Australia) station, 206-7 Pinup (code word; formerly Pearl and Thumb), 314 Plans and Policy, Office of (DDPP), 112 Platform (computer network), 102 platforms, land, 155-178, 200, 205-7, 209 platforms, sea, 198, 212-35 plumbers' unit, 259, 284, 289, 290 Podgorny, Nikolai, 289 Point Alpha, 220, 221 Port Said (also Point Charlie), 220 poison gas, 221 polygraph, 122-24 Postal Telegraph, 12 Pravda, 183-84 President's Foreign Intelligence Advisory Board (PFIAB), 278 Press, Frank, 362 press, freedom of the, 285-86 Prestel, Robert L., 117 Price, Benjamin J., 326 Princeton, 341 privacy, right of, 4, 305, 376, 378, 379 Private Office, 328 Procurement Division, 112 Production, Office of (PROD; later DDO), 89; structure, 90-92; and procurement, 110; warns JCS of possible danger of Pueblo mission, 234; depends on FBI black-bag experts, 264; concern over outside competition, 346 Professional Qualification Test (PQT), 105-6 Programs and Resources, Office of (DDPR), 113 Project Focus, 341 Project K, 59-60 Project Lightning, 100, 341, 344 "Prosecutive Summary," 306-7 proximity fuses, 310 pseudorandom wave forms, 356 public cryptography: and danger of cryptography competition, 321, 346, 350, 359; end of NSA support for, 344; and the threat of academic research into, 349-63; NSA tries to halt public-key cryptography, 350; and NSA desire to

public cryptography — Cont.
maintain monopoly in cryptography, 352, 358, 359
Public Cryptology Study Group, 359, 360, 361
Public Law 86-36, 88-89, 123, 169, 281
public telephones, monitoring of, 255-56, 261
Pueblo, U.S.S., 81, 233-35, 285
Purple code, 37, 39, 42, 44, 281, 311-12, 314
Puzzle Palace. See National Security Agency
Pyramider satellite system, 356n

Qaraneh, Mohammed, 200 Quakers, 252

Rabid, 314 Raborn, William F., 72 Racal Communications Systems Ltd., 335 racial militant activities, 249-50 racketeers conspiracy case, 375-76 radar, 180, 310 radar countermeasures, 310 Radar Intelligence (RADINT), 92 radar sites, 196 radicals, 249-50 Radio Act (1927), 14 Radio Astronomy Zoning Act, 167 radio circuits, 318 Radio Communications Act (1912), 11-12 Radio Corporation of America (RCA): sends Pearl Harbor message, 39; contractor for Project Lightning, 100; negotiations with, to secure post-World War II access to cables, 237, 239, 240; concern of, over legality of cable intercepts, 241; impact of, shift to computers on Shamrock, 244; the FBI as go-between for NSA and, 246-47; executives of subpoenaed by Government Information Subcommittee, 303; builds ECOM, 377; operates two satellites, 376-77n radio interception, 310 radio intercept stations, 14 Raduazo, Charles, 105 Ramparts, 262 Raven, Francis A., 91, 212; and the Petersen affair, 131; comments on NSA take-

Raven, Francis A., 91, 212; and the Petersen affair, 131; comments on NSA takeover of Menwith Hill, 209; comments on NSA search for ships, 213; and the Six Day War, 218, 219, 220; comments on domestic intelligence prohibition, 251-53, 364, 367; and NSA drug pro-

Raven, Francis A. - Cont. gram, 257, 263; views on the IGCP, 259; testifies before Senate Intelligence Committee, 298-99; comments on eavesdropping on Third World, 346; comments on computerized approach to watch lists, 364-65; comments on intelligence on innocent Americans, 366, 374; comments on Koreagate, 367; receives FBI cryptanalysis, 375 Ray, James Earl, 251-52 Raymond, Richard C., 340 Raymond E. Linn Operations Building (LOB), 170 RCA. See Radio Corporation of America Reagan, Ronald W., 84, 192, 296, 370, 374, 378 Reagan executive order, 374-76 Ream, Joseph H., 86, 340 Rebozo, Charles (Bebe), 265 Receive Only Station (RCV), 176 Red machines, 312 Redman, John R., 48 Rendle, John, 336 Reports Section, 41 Research and Development, Office of (later Research and Engineering), 96, Research and Development Division (RADE; later Intercept Equipment Division), 96-97 Research and Engineering, Office of (R and E; formerly Office of Research and Development), 63, 96-97, 110, 111, 137 Research, Engineering, Mathematics, and Physics Division (REMP; later Mathematical Research Techniques Division), 96 Reynolds, S. Wesley, 124-25, 133, 141-42, 146, 147-48 Rhoads, Mark, 31, 32 rhombic array antenna system, 163-64 Rhyolite (satellites), 195-98, 200, 201-2, 207, 211 Rich, Robert E., 90 Richards, Theodore W., 7 Richardson, Elliot, 291-94 Rinehart, Robert F., 339 Rintelen, F. von, 22 Riverbank Laboratories, 28-29 Rivest, Ronald, 350, 353

Robert C. Clowry (cable ship), 12-13

Robertson, Howard P., 339

Robinson, Arthur R., 26

247n

Robert Kennedy and His Times (Schlesinger),

Robinson, U.S.N.S. Lieutenant James E., Rockefeller, Nelson A., 295 Rockefeller Commission, 205-06, 306 Rommel, Erwin, 43 Room 40 O.B., 310-11 Roosevelt, Franklin D., 26, 45 Rosen, Leo, 312 Rosenblum, Howard E., 97 Ross, Thomas B., 128 Rosser, J. Barkley, 342 Rowlett, Frank B., 30, 116, 295 Rowley, James, 74 Royal (classification code), 122n Royal Mail Openers, 928 Rudd, Mark, 289 Rumsfeld, Donald, 303-04

Safford, Laurance F., 33, 35 Sage, Bob, 244 Salisbury, Harrison E., 2, 280 Salmon, David, 6-7 SALT. See Strategic Arms Limitation Treaty Samford, John A., 69, 86, 138, 321 Samos (satellite), 188 Saratoga, U.S.S., 224 Satellite Business Systems, 376-77n satellites, 174, 187-93, 208, 332-33, 376-78 Sato, Naotake, 44 Saturday Evening Post, 18-19 S boxes, 345-47, 349 scan-guides, 253 Schilt, Clarence, 140 Schlesinger, Arthur M., Jr., 247-48n Schlesinger, James R., 3, 87, 156-57, 199 Schorr, Daniel, 2 Schreir, Wolfgang, 183-84 Schulz, Lester R., 113, 166 Schwartz, Daniel C., 82-84, 114, 123, 359 Schwartz, F.A.O., Jr., 301 Schweiker, Richard, 301-2 Science, 357, 358, 362 Scientific Adviser to the President, 189 SDS. See Students for a Democratic Society search chips, 347, 348 Sears, Robert E., 94 secondary testing, 365 Second Signal Company, 35 Second Signal Service Battalion, 41 secrecy orders, 354-56, 357 -. See under names of spe-Secretary of cific departments Secret Group, 355

Secret Ink Subsection, 7 Secret Office, 927-28 Secret Service, 249, 277, 289-90, 292-93, Securities and Exchange Commission (SEC), 24 Security, Office of, 131, 136, 149, 153 security classifications, 119-20 security leaks, 284, 365-66 security screening, 152 Selfridge, Oliver, 340 n Senate Foreign Relations Committee, 320 Senate Intelligence Committee: and the CIA, 2-3, 299; Watters testifies before, 176-77; concern with intelligence gap, 203; and Shamrock, 236, 303; NSA officials before, 298-302, 364; investigates DES controversy, 349; and the Meyer letter, 354; and the FISA, 367, 373; warns of NSA potential to violate privacy, 376; recommends NSA receive statutory charter, 378 Senate Judiciary Committee, 242, 243, Senate Watergate Committee, 290-94 senior liaison officers, 325 Senior United Kingdom Liaison Officer (SUKLO), 317, 327 Senior United States Liaison Officer (SUSLO), 317, 325, 327 sensitive compartmented information, sensitive information, 150 Sensitive Materials Center, 64-65 service cryptologic agencies (SCAs), 157 Seymour, Whitney N., Jr., 286, 287 Shah of Iran, 199-200 Shamir, Adi, 350 Shamrock, Operation: termination of, 236; cable companies participate in, 238-39; RCA and ASA cooperate on, 239-41; launched, 241; and the shift to computers, 244-45; gathers intelligence on communications with Cuba, 248; continues after revocation of the Huston Plan, 275; fear of revealing existence of, 282, 291, 302; continues despite Richardson directive, 293; testimony about, before the Senate Intelligence Committee, 299; investigated by the Government Information Subcommittee, 302-6; and the Levi task force, 306, 307-8; violations of the Communications Act (1934) by, 307; British participation in, 331; volume of

Shamrock — Cont. Sinkiang (China) listening post, 201 data from, 365; might be excluded from Sinkov, Abraham, 30, 312, 315 Six Day War, 217-29 FISA, 373 Shannon, Charles E., 112 Sixth Fleet, 224 Smith, Alfred T., 22-23 Shannon, Claude E., 340 n Shapley, Deborah, 958 Smith, Bromley, 74 Shokal'skiy, 213 Smith, Joseph, 245 Smith, Richard K., 222, 227 Short, Walter, 39 Smith, Walter B., 324 Sidar (code word), 314 SIGINT beach balls. See ferret satellites Sobe, Okinawa, 166 SIGINT City. See Fort Meade "Solution to American Diplomatic Codes" SIGINT Committee, 258-59 (Yardley), 6 "Some Mathematical Aspects of Cryptog-SIGINT community, 121 raphy" (Albert), 342 SIGINT fleet, 235 "SIGINT Information on Narcotics and sonar, 310 Dangerous Drugs," 262 South America, 212 SIGINT satellites. See ferret satellites South Korea, 326 SIGINT sources, 293 Soviet Life, 140, 148 Soviet trawlers, 213 Signal Corps, 14, 27 Soviet Union: aware of NSA activities, 74; Signal Intelligence School (later Cryptographic School), 31, 35, 41 air war of, with the US, 108, 137-38, Signal Intelligence Service (SIS; later 178-84; space program of, 165; failure to encode VHF and microwave signals, Army Security Agency): founding and organization of, 27; budget for, 31; au-197-98; sea-based listening platforms of, 212-13; claim of territorial sea disthority for operations, 32-33; expanputed by U.S., 231-32; and the Suez sion of, 33, 41; structure of, 35; and crisis, 319-320; and IEEE symposium Navy cryptanalysis, 35-36; and Japanese intercepts prior to Pearl Harbor, 36-37; on cryptology, 353 establishment of intercept stations by, Space and Missile Systems Organization 158 (SAMSO), 192, 211 signals analysis, 92 space shuttle, 202-4 signals conversion, 92 Space Systems, Office of, 192 Signals Department, 335 Sparks, William S., 239-41 Signal Security Agency (SSA), 41, 42, 43, special background investigation (SBI), 98, 237-41, 315; see also Army Security 107-8 Special Branch, 40-43, 313 Agency; Signal Intelligence Service Signal Security Branch. See Signal Intellispecial intelligence communications (SPINTCOM), 103-4 gence Service Signal Security Division. See Signal Intelli-Special Intercept Priorities Groups gence Service (SIPGs), 51 Special Laws Administrative Group, 355 Signal Security Service. See Signal Intellispecial liaison officers (SLOs), 313 gence Service signals intelligence (SIGINT): consoli-Special Litigation Unit, 306 dated under AFSA, 57; resources of, 77; Special Projects, Director of, 192 methods of collection of, 87, 188, 258, Special Report, 267-70, 271-72, 274, 277 379; legality of, 256, 262, 306, 378; Speierman, Kermith H., 103 IGCP assigns priorities for, 258; and Sperry Rand, 100 narcotics, 262; reliability of, 334, 377-Sputnik, 167 78; growth of, and the law, 378 spy-in-the-sky. See ferret satellites signals intelligence, British, 57-58 spy satellites, 186-93 Signals Intelligence, Office of (formerly Stallings, Richard L., 205 Office of Production), 89-93 standard technical equipment develop-Sikes, Robert L. F., 157 ment (STED; later Cryptographic Silkworth, 112 Equipment Division), 97 Silver, Daniel B., 114, 374 Stark, Harold, 98

State, Department of, and Western Union, 11-13; scratches idea of China listening post (1992), 15; reacts to The American Black Chamber, 19; previews Japanese Diplomatic Secrets, 23-24; seeks legislation to protect government secrets, 25; receives diplomatic and clandestine traffic, 36; Special Projects Staff, 45; as COMINT consumer, 45, 49, 51; diplomatic couriers from, 65; and the EC-130 incident, 181-183, 185; approves Pueblo mission, 233; requests FBI to engage in black-bag techniques on its behalf, 246, 279; joins force against drugs, 255, 260; officials of, investigate value of NSA SIGINT, 334; controls export of arms through ITAR, 959, 954 State, Secretary of, 94, 259, 371 State-Army-Navy Communications Intelligence Board (STANCIB; later USCIB), 45 Steakley, Ralph, 234 Stimson, Henry L., 16-17, 19, 26-27, 37-Stone, Earl E., 47, 48, 50, 52, 58 Stone Board, 47 Strategic Arms Limitation Treaty (SALT), 197, 198, 200, 203 strategic intelligence, 210, 255 strategic targets, 215, 229 stream cipher device, 357 Streamliner, 104 Stretch computer, 100-101 Students for a Democratic Society (SDS), 289, 343 Stuyt, Giacomo, 131 subelements, 258 subversive activity, foreign-based, 277 Suez crisis, 310-20 Sugar Grove, 167-72, 257 Sullivan, William C., 264-69, 375 Summer Campus, Advanced Mathematics Program (SCAMP), 344 Sumners, Hatton W., 25 Support Activities Building (SAB<sub>3</sub>), 64-Supreme Court, 251 surreptitious entry. See black-bag techniques Swell (code word), 914 Syria, 220, 227

tactical intelligence, 189, 209, 231-32 Tahmass, 225 targeting: priorities, 49; resources for,

targeting - Cont. part of CCP, 77; Soviet Navair, 164, 165; information about, provided by Rhyolite, 197; goals on ships, conflict between NSA and Navy over, 215; by NSA and Western Union, 305; by UKUSA partners, 300; see also domestic targeting Tate, Raymond T., 92, 93, 95, 96, 190 Tavenner, Frank S., 146 Taylor, Rufus L., 230 Taylor, Telford, 313, 315 technical extracts of traffic (TEXTA), 164 technical intelligence, 3 Technical Research Ship Special Communications (TRSSCOMM), 219, 227 The Technology of Espionage (Paine), 194technotyranny, 379 telecommunications, 376-78, 379 Telecommunications, Office of (TCOM; later Office of Telecommunications and Computer Service), 90, 91, 97, 104 telecommunications system, 47 telegram interception, British, 329-31 telemetry analysis, 92 Telemetry Intelligence (TELINT), 197 telemetry monitoring, 202 telephone interceptions, 174, 197, 263, 296-97, 305, 329, 331-32, 356 TELSTAR, 333 Thant, U, 217 Think Tanks (Dickson), 343 Third World, 322, 346 Thirteenth U.S. Army Security Agency Field Station. See Menwith Hill Station Thompson, Llewellyn E., 183 Thumb (code word), 314 Tiltman, John H., 130, 315 time specification of line item, 258, 260 Tizard, Henry, 310-11 Tolson, Clyde, 264-65 Tomba, Joseph J., 304 Tordella, Louis W.: developer of R and D program to advance computer program, 87; de facto head of NSA, 87-88, 261; testifies before Senate Intelligence Committee, 177-78; and Shamrock, 245, 246; and the drug watch list program, 256, 262, 263, 373; supports use of black-bag techniques, 234, 264-65, 267, 270; comments on Hoover, 269, 276; and ICI, 270; and the Huston

Plan, 274, 275; and the IEC, 278; con-

cern for NSA's anonymity, 290; retires, 294-95; appoints SUSLO without con-

Tordella, Louis W. - Cont. sulting DIRNSA, 325-26; aids in lobbying for Bude earth station, 333 T Organization. See Telecommunications, Office of Tovey, Brian J. M., 325 Trabzon (Turkey) listening post, 180 Tracksman stations, 202 Tracksman 2. See Kabkan intercept station Tractor computer component, 101 traffic analysis (T/A), 914 Transatlantic Telephone Cable (TAT), 174 transit points, 257 translation, 92-93 transmission security, 356 Travis, Edward, 70, 313, 315-16 Travis Trophy, 70-71 Treasury, Department of the, 255, 260, 290 Treasury, Secretary of the, 94, 259 trigger words, 250 Trine (code word), 253, 309 Troop Support Facility, 64, 67 Truman, Harry S, 1, 52, 55, 236, 242, 244, TRW, 193, 196, 198, 356n Tuchman, Walter, 345, 349 Turing, Alan, 311 Turkey, 159-60, 200, 201 Turkey/U.S. Agreement for Cooperation on Defense and Economy, 160 turncoats, 122-23 Turner, Stansfield, 3, 166, 199, 371 Turner Joy (U.S. destroyer), 229 Two Rock Ranch, 169, 179 Tyler, Harold, 303

tra Rabid, 315 Umbra (code word; formerly Trine, Dinar), 120, 201–2, 253, 261, 309 Union of Soviet Socialist Republics. See Soviet Union United Kingdom (U.K.). See Great Britain United Kingdom-United States Agreement (UKŪSA), 309–15, 325, 326, 331– 32, 333, 372-73 United States: continues surveillance of Japan through Purple after World War II, 44; air war of, with USSR, 137-38; asks token payment for Liberty attack, 228n; disputes Soviet claim of territorial sea, 232; relations with Britain, 309, 311, 314, 315, 317-318

Ultra (code word), 281, 310–11, 313–15;

Ultra Corral, 315; Ultra Dexter, 315; Ul-

United States Air Force Security Service (USAFSS; later U.S. Air Force Electronic Security Command), 156-57, 159, 209-10, 262

United States Army Intelligence and Security Command (INSCOM), 156-57; see also Army Security Agency; Army Intelligence

United States Communications Intelligence Board (USCIB), 45-46, 48, 49-50, 52, 54-55, 97, 317

United States Communications Security (COMSEC) Board, 94

United States COMSEC Committee (formerly U.S. Communications Security Board), 94-95

United States embassy, Tel Aviv, 224
United States Intelligence Board (USIB; later National Foreign Intelligence Board): role of DIRNSA in, 73-74; and the Kahn affair, 127; and the Petersen affair, 132; and COMOR, 187-90; and intelligence requirements, 189, 258-59; attends opening of DEFSMAC, 190; unaware of domestic targeting by NSA, 249, 261-62; issues IGCP, 258; and legitimacy of the drug watch lists, 260

United States Postal Service, 377
United States v. United States District Court.
See Keith case
Universal Trade Code, 9

Universal Trade Code, 9
University of California, Los Angeles
(UCLA), 344
University of Kansas, 100
U-2, 71, 144, 187, 200–201

vacuum cleaner approach to information gathering, 177, 197, 250, 252, 281, 364, 372

Valdez, U.S.N.S. Private José F., 213-19

"validation," 345

Vance, Cyrus R., 72, 73, 78, 231

Vega (Soviet trawler), 212-13

Vela (satellite), 188

Verkuyl, J. A., 131

very high frequency (VHF), 197-98

Victory ships, 216

Vietnam War, 161: size of intelligence

Vietnam War, 161; size of intelligence community during, 3-4; and COMSEC, 93; cryptographic equipment for, 95; use of ARDF in, 185-86; U.S. bombings during, 229, 279; protests against, 249-50, 254, 265; and the Pentagon Papers, 282, 285; IDA heavily involved in,

Vint Hill Farms (Virginia) Station, 41, 162-64
Vipar (code word), 309
visible light sensor (VLS), 207
vital national security launches, 203
voice communications, 378
voice privacy system, 356
voluntary censorship, 360
Von Neumann Hall, 341
Von Rundstedt, Karl, 44

Walter, Francis E., 143, 145, 149, 282 Wannall, Raymond, 248 War, Department of, 23-24, 29, 36, 314 War, Secretary of, 20–21 Ware, Willis H., 340 warrant, under British law, 330 warrantless searches, 142; see also blackbag techniques Warren, James, 171 Washington Naval Conference, 9-10, 16, Washington Post, 85, 287-88 Watch Committee, 49-50 watch lists: and Shamrock, 245; and domestic intelligence gathering, 247, 248-54, 261; tendency of, to expand beyond intent, 250-52, 269, 300-301; James Earl Ray placed on, 251-52; questionable entries on, 251-53; policy on additions to, 254, 258; on drugs, 256-57, 259, 260, 262, 296, 300; consumers of, 261; and the Huston Plan, 275; NSA formally reveals, 278; and the Weathermen trial, 200, 201; and the Kath case, 292, 293; discussed by the Rockefeller Commission, 296; questioned by the Senate Intelligence Committee, 300-301, 302; NSA processes British cables through, 331; catch innocent Americans in their net, 364, 365; under FISA, 368-69, 372 Watergate break-in, 289 Watson, Thomas, Jr., 344-45 Watters, David L., 176-77, 376 Weapons Systems Evaluation Group, 341-42 weapons testing, 207 Weathermen, 266, 272, 289-94 Weeks, Robert H., 312 Weingarten, Fred W., 351-52 Wenger, Joseph N., 86, 295 Western imperialism, 320 Western Union: supplies cables to American intelligence community, 12-13,

297-98; concern of, over legality of cable intercepts, 241; and the Government Information Subcommittee, 303-5; supplies cables to British, 329-30; operates satellite, 376-77n White Elephant No. 1, 66 White House: receives early warning from DEFSMAC, 190; representatives of, on White House Task Force on Heroin Suppression, 255; and domestic intelligence, 260, 266-79, 289; establishes Office of National Narcotics Intelligence (ONNI), 261; limits inquiry into Watergate by citing danger to codebreaking, 289; allows public testimony of NSA officials, 302; tries to dissuade Abzug from investigating Shamrock, 909 White House Special Investigations Unit. See plumbers' unit White House Task Force on Heroin Suppression, 255 Wiesner, Jerome B., 168 Wigg, George, 320 Wiley, Alexander, 242 Wilson, Charles E., 941 Winkel, Brian J., 350 n Winslow Peck. See Fellwock, Perry Winter Harbor, Maine, 172 Wireless Experimental Center, 42 wiretapping, 176-77, 378-79 Wise, David, 128 Withington, Frederick S., 184 Wolanski, Joseph, 244 Wolff, Herbert E., 89

Western Union - Cont.

Xerox Corporation, 377

163-64, 169

Wyman, Leslie, 125

Woodring, Harry H., 33

Yakima Research Station, 172
Yarborough, William P., 248-49
Yardley, Herbert O., 5-29, 158; and the State Department, 5-7, 15-18; "Solution of American Diplomatic Codes," 6; work during Peace Conference, 1918, 7; and MI-8, 7-8, 28-29; forms Code Compilation Company, 9; deciphers Japanese code, 9, 16; at the Washington Naval Conference, 10; establishes cable interception operations, 12-15, 330-31; The American Black Chamber, 17-22, 282; Japanese Diplomatic Secrets: 1921-22, 19-

Wullenweber antenna system, 161-62,

Yardley, Herbert O. — Cont. 25, 127; and post-World War I access to commercial cables, 237; and anonymity of NSA, 282 Young, David, 288 Zacharias, Ellis, 33-34 Zaslow, Milton S., 78, 89, 91, 103, 286-87, 326-27 Zimmermann telegram, 281 Zymotic (code word), 314